Delivering on Commitments

# The Budget Speech 2005

The Honourable Ralph Goodale, P.C., M.P.
Minister of Finance

February 23, 2005

Canada

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Mr. Speaker, let me begin by expressing my appreciation to all those who have helped in the preparation of this 2005 federal budget—from the many organizations and professional groups that presented expert briefs, to Canadians from every corner of the country who submitted individual letters and ideas.

Their contributions, their counsel and their concerns have helped shape the budget I am tabling today. I would also like to thank the Members of this House—from all sides—who have provided their advice and insights. In particular, I want to acknowledge the vigorous representations of a number of government Caucus Committees and the specific input of Opposition Finance Critics—the Honourable Members for Medicine Hat, Saint-Hyacinthe–Bagot and Winnipeg North.

## The Ability to Make a Difference

Recent events have reminded all of us of the increasingly interconnected world in which we live. Just two months ago, people in Ukraine launched a peaceful but profound "orange revolution." They demonstrated for democratic reform, and then cast their ballots in a genuinely free election on December 26th.

Our former Prime Minister, the Right Honourable John Turner, led more than 500 Canadians who volunteered to help ensure that the process was ultimately fair and lawful. All of us—including thousands of Ukrainian Canadians—are proud of the role Canada was able to play at a crucial moment in the life of that great nation, half a world away.

Sadly, the same day Ukrainians went to the polls, our attention was wrenched from the celebration of democracy to the tragedy of the tsunami in South Asia.

On that day, as one eyewitness described it, "the sea stood up and walked to earth."

With every passing hour and every passing day, the list of casualties grew, the extent of the damage increased and the enormity of the tragedy became painfully better known.

In its aftermath, Canadians responded with remarkable generosity. And in their actions, we saw the character of our country. Young children going door to door in their neighbourhoods. Canadians from every province and territory making donations large and small to support people they do not know in places they might never see.

Relief organizations and faith-based groups mobilized resources and translated noble intentions into practical help on the ground. We applaud all the volunteers, in all those agencies, who, in doing so much good abroad, honoured the values we cherish here at home.

In this budget, Canada's comprehensive $425-million assistance package for tsunami relief is confirmed as promised—as Canadians would fully expect.

In the first two months of this year, Canada has also assisted in the conduct of difficult elections in Iraq and among the Palestinians. We have continued our humanitarian engagements in places like Haiti and across Africa. We have helped to keep the peace in Afghanistan and Kosovo. We have provided the poorest countries of the world with greater debt relief and the resources to eradicate polio.

Actions that make a difference. Actions that reflect Canadian values at work globally.

All these international events of recent weeks remind us not only that we are all *connected*, in this world, but that we also have *responsibilities* in this world. For Canada, it is clear we have a special role to play and a unique contribution to make. But we also know that we can only play that role abroad if we are strong and secure at home.

That is why, last summer, we set out an ambitious agenda for Canada's future—to maintain our unparalleled fiscal success, to invest in our people, to achieve a more productive and environmentally sustainable economy, and to bolster Canada's role in global affairs.

That agenda was carefully paced for implementation over the coming five-year period, knowing (as Canadians fully understand) that not every ambition can be fully satisfied in a single year. But at every opportunity, Canadians will expect us to take major steps to deliver on our commitments. And that's exactly what this budget does!

For the sake of completeness and transparency, and given that many of the Government's newest and largest program obligations (like those enshrined in federal-provincial and territorial agreements) represent commitments of five years or longer, the framework for this budget is in fact five years, rather than the usual two.

## Sound Financial Management

Delivering on our commitments begins with an unrelenting dedication to sound financial management—to balanced budgets or better, year after year.

This is not just good economic management, it's good common sense. It creates the discipline of pay as you go, not spend as you like. In ensures that the decisions we make today do not become the debts our children will have to bear.

In that spirit, I am pleased to announce that for 2004–05 Canada will record its eighth consecutive balanced budget. This is the longest unbroken string of surpluses since Confederation. And we expect it to continue.

To keep the federal books solidly in the black, we will continue to set aside an annual Contingency Reserve of $3 billion. And we will continue to build a transparent measure of further economic prudence into our budget planning.

If the extra prudence proves to be unneeded in any given year to keep us in balance, it will be invested in the programs and services which Canadians have identified as their priorities. If the Contingency Reserve is not needed to deal with unforeseen events, it will be used to reduce debt.

Debt reduction is not something we do to please the economists. It is something we do to benefit Canadians. Reducing debt, in a reasonable and measured way, relieves a big burden on future generations. It saves billions of dollars in servicing charges. It facilitates a Triple-A credit rating, lower interest rates and rising standards of living. It enables Canada to prepare for the inevitable pressures of an aging population.

And most importantly, it is something that the vast majority of Canadians believe is the right thing to do.

That is why, since first balancing the budget in 1997–98, we have reduced federal debt by more than $60 billion, resulting in savings to Canadians of more than $3 billion annually. It's not a one- or two-year gain. It's a real dollar benefit every year going forward.

A commitment to sound financial management is never easy—and it is never over. It is not something to be done once—or just for a while—and then set aside. It requires the steady, unrelenting application of rigorous discipline and vigilance—at the macro level of balancing our government books overall, and at the day-to-day micro level in how programs and services get delivered.

To further this objective, the Government of Canada created a Cabinet Committee on Expenditure Review (ERC). Its objective was to make sure that every dollar spent is a dollar well spent, with a focus on the contemporary needs of today and tomorrow, not locked into the patterns of yesterday.

Under the able direction of my colleague, the Minister of National Revenue, the Committee has scrutinized every line of government spending. Its goal was to find $12 billion in existing spending to be reallocated from lower to higher priorities over the coming five years. I am pleased to announce today that our ERC process has already identified nearly $11 billion of such savings—savings which are incorporated in this budget. Every penny will be reinvested in core federal programs and services that truly matter to Canadians.

And while all departments of government have participated in this effort—and I thank them all—allow me to single out the people in the Department of Public Works and Government Services for their ERC work. They rose to the challenge and made an exceptional contribution to the success of this exercise. I applaud their innovation and their professionalism.

Expenditure review has delivered results. Now we must ensure that it becomes part of the very core and culture of government. For this job to be well done, it must be done continuously. We will, therefore, make expenditure review an ongoing, evergreen element of good governance.

## Economic and Fiscal Forecast

Let me turn now to an overview of the Canadian economy.

As we enter 2005, Canada finds itself in an enviable position, with an economic record that is, quite simply, unmatched in the world-leading Group of Seven (G-7) economies. Among that group, since we balanced the budget in 1997, Canada has achieved the best debt-to-GDP (gross domestic product) ratio; the best job creation record; the fastest growth in living standards; and according to the Organisation for Economic Co-operation and Development, we are the only G-7 nation expected to be in surplus in both 2005 and 2006.

This performance, this record of achievement, tells us that we are on the right path and following the right policies. But our goal is not to accumulate statistical bragging rights. Our goal is to use the fruits of our success to sow the seeds of future achievement—to employ the dividends of fiscal and economic strength to keep on building a world-leading society with an enviable quality of life for all.

This is the essence of the commitment we made to Canadians in the June 2004 election.

In 2004, our economy continued to grow at a solid pace. Looking ahead, in establishing the Government's economic projections for the coming years, we have again consulted with leading economists and forecasters from the private sector. Based on those consultations, the average private sector forecast for real growth in 2005 is 2.9 per cent.

For next year, 2006, the average private sector forecast is for growth of 3.1 per cent.

This expected growth, and our unwavering commitment to balanced budgets or better, means that Canada will remain in a positive fiscal position.

Our continuing economic success is certainly encouraging. But that success has also brought its own challenges, including a much higher Canadian dollar. To date, Canadian companies have done an outstanding job of adjusting to the rise in the value of our currency. However, there is no doubt that further adjustment will be required, especially in light of the speed at which currency rates have changed.

Canada is a trading nation and 85 per cent of our exports go to the United States.

The so-called "twin" U.S. budget and current account deficits remain the principal risk to our economic and fiscal forecasts over the medium term. The American situation could lead to higher interest rates, slower U.S. growth and a further depreciation in the American dollar—any of which could negatively affect us here in Canada.

As we look down the road, we must be conscious of those risks, but not be paralyzed by them. Rather, we must plan accordingly and continue to keep ourselves in a position of fiscal strength, the better to handle the risks, should they arise.

## Delivering on Our Commitments

So, with consistently balanced budgets, steadily declining debt, low and stable rates of inflation and interest, a Triple-A credit rating, the best fiscal record since 1867 and the best fiscal performance in the G-7—this government will deliver!

On health care and Equalization. On cities and communities. On children and seniors. The disabled and their caregivers. Aboriginals. The environment. The Armed Forces and Canada's place in the world. This government will deliver.

## Health Care and Equalization

We started early. Last September, we concluded a unanimous, long-term $41-billion agreement on health care with all of Canada's Premiers—an agreement which provides predictable and growing federal funding to bring real change and to make a real difference.

As a result, federal cash transfers to provinces and territories in support of health will rise from $16.3 billion this year to $19.6 billion next year. Thereafter, cash transfers will escalate by 6 per cent annually, reaching $30.5 billion in 2013–14.

We have thus met and surpassed every financial benchmark established by the Romanow Commission on Health Care, and we have fully honoured the health commitments we made to Canadians last summer.

With more federal money than ever before and with agreements to report regularly to citizens on the progress being made, we can all now turn our full attention to making our health care system better through shorter waiting times; more health care professionals and equipment; better primary care and home care; greater research and innovation; and better public health and wellness.

The health care agreement also addresses the unique challenges of delivering health care services in the North and it takes important steps to improve the health status of Aboriginal people.

In addition, last October we also introduced a new framework for provincial Equalization and territorial financing, providing $33 billion in incremental funding over the coming decade—with more money and more predictability than ever before and with the help of an expert panel to advise on the allocation among provinces.

Together, these two commitments—on health care and Equalization—will provide nearly $75 billion in new federal funding to provinces and territories over the next 10 years. But they represent only part of what we are committed to do.

## Cities and Communities

Canada's cities and communities are the places where most Canadians live and work, raise their kids, and want to retire in dignity and security. They are engines of growth, employment and innovation, centres of art, culture and learning.

Most significantly, municipalities are the level of government closest to Canadians. They deal with fundamental issues that touch people's daily lives. In light of that, the Prime Minister proposed a New Deal for Cities and Communities, based upon a set of principles: to provide new, reliable, long-term funding; to ensure fairness among regions and among communities of different size; to respect the jurisdiction of provinces, set shared objectives and report results to Canadians.

Last March, in Budget 2004, we took a major step forward by providing municipalities with full relief from the goods and services tax (GST)—a $7-billion federal investment in local governments over 10 years. But that was only a beginning and we made a commitment to go further. With this budget, we deliver.

Beginning in 2005–06, the Government of Canada will share with municipalities a portion of the revenue from the federal excise tax on gasoline to help fund local environmentally sustainable infrastructure.

Our commitment was to transfer a total of $5 billion over five years—beginning with a penny per litre or $400 million in this coming year. We will do better—starting at $600 million, not just $400 million—and then rising as promised to 5 cents per litre or $2 billion in 2009–10, and continuing thereafter indefinitely!

To bring tangible new benefits literally to the front doorstep of each and every Canadian family, we want the new GST rebate and the new gas tax revenues to be truly incremental. Not instead of, but in addition to, what municipal and provincial governments would otherwise be planning to do.

And for our part, federally, we will not look at our new revenue transfers as a substitute for our three existing infrastructure programs. They will be in addition to them.

Accordingly, when our Municipal and Rural, Strategic and Border infrastructure programs are due to expire in the normal course over the next several years, it is our clear intention to renew and extend them into the future. The same is true for our housing initiatives.

This New Deal is also about recognizing the central role of municipalities in our national *life*—ensuring that their voice is heard in our national *policies*. And that is exactly the kind of new relationship this government is building.

Last month, in Regina, I had the privilege of meeting with municipal leaders from across the country as part of my formal pre-budget consultations. They should—and they will—be a permanent part of the federal budget-making process going forward.

## Children

There can be no more important commitments than those we make to our children. A good start in their earliest years can level the playing field, inspire confidence, foster life skills, encourage ambition and make possible greater goals.

Last summer, we made a commitment to work with the provinces and territories to build the foundations for a high-quality, universally inclusive, accessible and developmental Early Learning and Child Care initiative.

With this budget, we are delivering on our commitment

With other important elements like the Canada Child Tax Benefit, the Head Start program and the 2003 Multilateral Framework already in place, I am pleased to confirm that we will provide $5 billion over five years to introduce a national Early Learning and Child Care initiative. And we understand with our provincial and territorial partners that federal support will need to be ongoing beyond these initial years.

Of this $5 billion, $100 million will be devoted to First Nations on reserve to address the unique challenges those communities face.

## Seniors

Just as this country recognizes the importance of investing in its youngest, it also recognizes the enormous debt we owe to our seniors. Theirs was the generation that survived the depression, went to war to protect our liberty, and built the Canada we now know.

To address their evolving needs, this budget makes significant investments across the full range of seniors' programs—from health care to income security, from retirement savings to assistance for their caregivers. The goal is to enhance the quality of life for all seniors, especially those with the most limited means.

It is the Guaranteed Income Supplement (GIS) that provides low-income seniors a fully indexed benefit that ensures a basic level of income throughout their retirement years.

Last summer, we made a commitment to increase GIS payments over the next five years. Today we not only honour that commitment, we will do better.

We will invest $2.7 billion, and the promised improvements will be fully in place in less than two years, not five. As a result, 1.6 million seniors—the clear majority of whom are women—will benefit. The maximum GIS will go up by more than $400 per year for a single senior, and by almost $700 for a couple.

We will also ramp up our support for the highly successful New Horizons program—more than doubling it by 2007–08, to $25 million per year. And to serve as a focal point for our efforts to address the challenges facing seniors, this budget also provides $13 million over five years to establish a new National Seniors' Secretariat.

## Caregivers and People With Disabilities

Many families across Canada today are struggling to care for elderly parents or for adult children with disabilities. For these families, the hours can be long, the responsibilities large, the demands unrelenting—and the costs significant.

In Budget 2004, we enabled those who provide such care to claim up to $5,000 of medical and disability-related expenses. With this budget we go further. I am pleased to announce that we will double that amount to $10,000—starting *this* tax year.

I also want to note the recent report of the Technical Advisory Committee on Tax Measures for Persons with Disabilities. Under the expert leadership of Sherri Torjman of the Caledon Institute of Social Policy and Robert Brown, a former Chair of the Canadian Institute of Chartered Accountants, the Committee has offered solid, thoughtful advice.

I am pleased to announce today that we will act on virtually all of the Committee's recommendations—to help people with disabilities become more self-reliant and to remove barriers to their fuller participation in Canadian life.

For example, the amount of the Child Disability Benefit, starting this year, will be raised from less than $1,700 to $2,000. With this and other tax improvements from the Committee's report, federal support for low- and modest-income families with children with disabilities will be five times higher than it was at the beginning of this decade.

## Aboriginals

For too long and in too many ways, Canada's Aboriginal people—our first citizens—have been last in terms of opportunity in this country. The Government of Canada is committed to a new relationship, one based on partnership and respect and rooted in economic self-reliance.

This commitment is being vigorously pursued through the Canada–Aboriginal Peoples Roundtable. Federal ministers, together with Aboriginal leaders and provincial and territorial governments, are exploring ways to make progress in such key areas as health, lifelong learning, housing, economic opportunities, land claim settlements and accountability.

This process, which began with a national gathering of federal and Aboriginal leaders in Ottawa last spring, will culminate in a First Ministers' Meeting in the fall of 2005. We look forward to the results of that meeting to make greater progress in closing the unacceptable gaps between Aboriginal and non-Aboriginal Canadians.

It is probably safe to say, however, that two particular issues will be high on the agenda for more attention in the period ahead.

One is an accelerated and recalibrated healing process, especially for the victims of Indian residential schools, and the other is a transformative thrust toward learning and skills among Aboriginal youth—not detracting from their traditional knowledge or the wisdom of their elders, but building proudly on that heritage with the strength of 21st century education.

To that end, we are extending our support for the Aboriginal Healing Foundation and the National Aboriginal Achievement Foundation as immediate investments in these crucial priorities.

We will also make immediate investments in early learning, in special education, in child and family services on reserves, and in better housing, with a view to stimulating Aboriginal businesses and jobs in the housing sector—all under more effective Aboriginal direction and control.

We will also provide funding for the ongoing work of reshaping Canada's relationship with the Metis community, and for the Prime Minister's promised Inuit Secretariat.

## Enhancing Productivity

A nation's ability to achieve higher levels of prosperity is a function of two ingredients—a steadily growing workforce and steadily improving productivity. In this regard, Canada faces some particular challenges.

Demographically, our population is aging. The baby boomers will soon retire, followed by a much smaller generation of workers and taxpayers. We can no longer rely on automatic labour force growth.

And while our productivity growth has improved, we cannot be complacent—especially given the recent strength of the Canadian dollar.

So here's what lies ahead. We need to focus on a workforce that's as inclusive as possible to mitigate the impact of demographic change. We need to encourage that workforce to be as smart and as skilled as possible—to beat its international competition and to adapt to changing times.

We need to develop and utilize the fruits of science and technology and the most modern machinery and equipment.

We need efficient regulatory systems, high-quality public infrastructure and a competitive tax regime.

These are keys to success in a global economy—the path we must pursue.

With respect to an inclusive workforce, I've already mentioned the vital importance of Aboriginal Canadians—a growing number of young, skilled and confident Aboriginals could make a significant contribution to this nation's future productivity.

Similarly, for both productivity and social reasons, Canada needs to attract and retain skilled immigrants—and ensure they can reach their full potential within our society.

To that end, our last two budgets made significant investments—to support language training and to make progress on the recognition of foreign credentials. And we are investing $75 million over five years under the health care agreement to accelerate the integration of health care professionals educated abroad.

Over the past three years, Canada has welcomed an average of 220,000 immigrants every year—fully consistent with our policies and commitments in this area. But we recognize that these numbers are putting pressure on immigrant settlement and integration services across the country. To help relieve that pressure, we will invest an additional $300 million over the next five years.

Workforce inclusion is also helped by a successful Early Learning and Child Care initiative—providing young parents with the confidence that their children are indeed getting the high-quality and developmental care they would want and expect.

With respect to skills, we will provide a further $125 million over the next three years to advance a more effective Workplace Skills Strategy. And we are increasing support for national literacy initiatives.

To help build the kind of productive economy that will expand opportunity, create good-paying jobs and improve living standards for all, in both urban and rural Canada, we need to continue investing in new ideas and innovation—and in the people who will produce them.

To this end, we have invested more than $11 billion over the past eight years. This has fostered a world-class research environment in Canada, including universities that are among the best on the planet—with top-notch faculty and the most modern equipment.

We have also invested in commercialization, and we have improved access to the venture capital that is so essential to ensuring that Canadians reap the fruits of Canadian research.

To sustain the important momentum created by our science-based investments, to develop the enabling technologies of tomorrow, and to maintain our lead in publicly funded research among all G-7 countries, this budget provides an additional $1 billion.

This will include increased funding for our granting councils and for the indirect costs of research at post-secondary institutions.

Part of the productivity solution is also investing in public infrastructure, including in our cities and at crucial border crossings such as Windsor-Detroit—probably the most valuable transborder shipping point in the world—and vital new trading "gateways" like those along our Pacific coast.

Enhancing productivity will also depend on remaining firmly committed to sound financial management, more open internal and external trade, and smarter regulatory systems (including those which govern financial services). The current securities regulatory regime, it is widely agreed, is expensive and cumbersome. This government is committed to working with provinces and territories and the private sector to establish a more streamlined, less fragmented system.

Let me turn now specifically to taxation in the context of greater productivity.

We have cut taxes each and every year since the federal budget was first balanced in 1997. We restored full indexation, lowered rates and increased the amount Canadians can earn tax-free. All told, for a family with two children, earning $60,000, our tax measures will result in savings in 2005 of close to $2,000—more than 35 per cent.

I am announcing today a set of new measures that will provide further relief to taxpayers—especially low- and modest-income Canadians, as specifically recommended by this House last fall.

First, to increase the income that Canadians can earn tax-free, starting in 2006, we will progressively raise the basic personal amount to reach $10,000 by 2009. When fully implemented, this measure will remove from the tax rolls more than 860,000 of Canada's lowest-income taxpayers. This includes almost a quarter of a million seniors.

Second, to help Canadians save more for their retirement, we will increase the limits on registered pension plans and registered retirement savings plans (RRSPs) to $22,000 by 2009 and 2010 respectively. This will be of particular benefit to entrepreneurs, the self-employed and small business owners.

RRSPs and pension plans are currently subject to a 30-per-cent foreign property limit. To expand the investing universe for Canadians and offer them the potential to achieve greater diversification and a more secure future, we will remove the foreign property limit—effective immediately.

To sustain the growth which drives our economy and enables us to meet the needs of our society, we need to ensure a competitive corporate tax system too—one that will allow us to attract the kind of investment that stimulates growth and creates well-paying jobs for Canadian workers.

Over the past few years, we have given our Canadian businesses a modest but strategic tax rate advantage vis-à-vis the United States. Over that same period, the Canadian private sector generated more than 1 million new jobs. However, recent tax reductions in the U.S. will gradually erode our margin.

To maintain it, this budget proposes to reduce the statutory corporate income tax rate by 2 percentage points—from 21 per cent to 19 per cent by 2010. We also propose to end the corporate surtax, which was introduced in 1987 as a deficit reduction measure. This will help all businesses in Canada, especially small and medium-sized enterprises (SMEs).

We will continue to work with grassroots business organizations—like the Canadian Federation of Independent Business—on how to further improve the productivity environment for Canadian SMEs, including the steadily increasing numbers of women entrepreneurs.

Canadian businesses have also told us that the rates of depreciation in the tax system must be updated to more accurately reflect the useful life of equipment. We agree.

Building on measures in last year's budget, we are announcing further adjustments to the capital cost allowance for certain assets. Appropriate depreciation will encourage companies to invest more, helping the productivity and competitiveness of our economy.

While "useful life" is the standard test used to determine depreciation rates, this budget will introduce an exception—an environmental exception—to the normal rules.

We will encourage companies to invest in more efficient and renewable energy generation equipment. Specifically, we will increase the rate at which capital cost allowance can be claimed for such environmental technologies from 30 per cent to a full 50 per cent for equipment acquired within the next seven years, and we are adding to the list of eligible assets.

## A Greener, More Sustainable Canada

This is a small but important example of economic policy serving environmental objectives. And we must do more!

Canadians want us to demonstrate that smart economic policy and smart environmental policy can go hand in hand. They don't want to have to choose one over the other. They want both and they expect their political leaders to deliver—both!

Our great challenge—and our clear responsibility—is to bring the same focus, the same determination and the same dedication to protecting and enhancing our environment as we did to restoring the health of the nation's finances. Canadians don't want a fiscal mortgage hanging over the futures of their children and they don't want an environmental mortgage to be the legacy of this generation to the next.

Climate change is a multi-dimensional challenge. We must, therefore, use the full range of policy instruments at our disposal. This budget does just that.

It introduces new market mechanisms; proposes new tax measures; creates incentives for businesses and consumers; spurs innovation; and introduces regulatory and voluntary measures.

These are the tools available to us, and we will use them all. Building on our successful expenditure review experience, this budget also launches an examination of all existing climate change programs to reassess and redirect funding to the most effective measures.

All told, we are committing a minimum of $4 billion over five years for action on climate change—not including our commitments to green public infrastructure.

Specifically, we are creating the Clean Fund, which will use the marketplace and competition to pursue the most cost-effective green projects aimed at lowering greenhouse gas emissions.

This fund will invest in high-quality environmental projects, provide a market to promote the domestic trading of emission reduction credits, and serve as a catalyst for technology development and application.

The Clean Fund will have an initial capital base of $1 billion.

Many climate change projects will be most effectively achieved through project-specific investments by both the federal government and provincial and territorial governments. To facilitate this, we will create a Partnership Fund. Beginning with $250 million, this fund has the potential to grow to more than $2 billion over time, depending on the timing of projects and the emission reductions they generate.

The combination of the Clean Fund and the Partnership Fund will make possible "big ticket" projects that can achieve big volume cuts in greenhouse gas emissions. For example, $CO_2$ capture, collection and storage systems, clean coal technology, the large-scale use of landfill waste for power generation, and better east-west power grid interconnections are just a few promising possibilities.

In terms of tax measures, as I mentioned earlier, we have created a new environmental exception to the depreciation rules, aimed at reducing greenhouse gas emissions by providing a tax preference for cleaner power generation equipment.

And we will continue to look for other ways to use the tax system to advance environmental goals.

As part of our efforts to provide greater incentives for the adoption of green power, we are quadrupling Canada's Wind Power Production Incentive. This will create enough energy—with zero emissions—to power 1 million Canadian homes.

We are also introducing a new Renewable Power Production Incentive to encourage the use of other renewable energy sources such as small hydro, biomass and landfill gas.

And to provide individual Canadians with incentives to contribute to a greener economy, I am pleased to announce that we will quadruple our EnerGuide program for home retrofits. Our goal is to achieve greater energy savings in some 500,000 more homes across the country.

The fight against climate change provides tremendous opportunities for innovation, to develop new technologies, break new ground, and create new jobs. This budget will provide $200 million over the next five years for a Sustainable Energy Science and Technology Strategy to ensure that when it comes to environmental technologies, Canada is the birthplace of the next generation of the best ideas and innovation.

To reduce greenhouse gas emissions, we must also use voluntary agreements and, where necessary, regulation in the most effective and appropriate way. Canada *will* finalize arrangements in the transportation sector and among Canada's largest industrial emitters.

Across our vast northern landscape, where energy production and consumption are deeply ingrained in how we exist, all Canadians—government, industry and citizens—need to believe and to demonstrate that energy conservation, efficiency and innovation (including the greater use of renewable and alternative fuels) are fundamental hallmarks of an intelligent 21st century society.

No decree will solve climate change. There are no short-term answers. But to fight it, this government will use every available tool. We will respect our commitments in a way that produces long-term and enduring results while maintaining a strong and growing economy.

But our environmental responsibilities do not stop at climate change. That is why this budget provides a further $1 billion in new funding for other environmental priorities.

This begins by building strong, environmentally sustainable communities. To that end, I am announcing some further dimensions to our New Deal for Cities and Communities.

First, at least half of the new revenues to be transferred through the gas tax will be dedicated to sustainable infrastructure.

Second, in addition to the gas tax, we are providing $300 million in new federal support for Green Municipal Funds to enable more local environmental projects to be advanced.

And third, half of that new funding through the Green Municipal Funds will be dedicated to the remediation of brownfield sites.

Beyond our cities and communities, we must also take steps to safeguard the great natural heritage which we have received from our parents and grandparents and which we are determined to preserve for our children.

To that end, this budget will provide support for a number of initiatives. We will launch the first phase of the Oceans Action Plan. We will increase investments in our national parks. We will extend funding of the Great Lakes Action Plan. We will help support the fight against invasive species. And we will bolster the work of the Prairie Farm Rehabilitation Administration as Canada's expert agency in matters related to the environment and agriculture.

## Canada in the World

Mr. Speaker, our country was founded on certain values and basic beliefs—a sense of fairness and justice; a spirit of generosity, compassion, tolerance and inclusion; open minds and open hearts. Those values have shaped our character as a nation and defined our position in the world.

Today, a new generation of young Canadians inherits those values and carries them abroad—a generation which takes great pride in being Canadian but which also sees itself as citizens of a wider world—with responsibilities to those beyond our borders. Part of that responsibility is demonstrated in global efforts to improve the environment—but it does not end there.

In an increasingly uncertain world, Canadians know that we must play our part and shoulder our share.

Canada's military has a long and distinguished history of doing just that—responding to international need and promoting international peace. Our responsibility is to make sure that their capabilities match the new demands of a new era. The shape of what that role should be is evolving, with a new National Security Policy released last April and a comprehensive international policy review soon to be presented.

We look forward to the results of that review. In the meantime, we will act in several key areas.

Last summer, we made a commitment to increase Canada's regular defence forces by 5,000 members and its reserves by 3,000—an important first step in implementing any new defence policy.

I am pleased to confirm today that this budget delivers on that commitment. In fact, we will go much further.

On a cash basis, over the coming five years, we will provide nearly $13 billion in new funding to our Armed Forces—the largest increase in defence spending in the last 20 years:

- funding for both the new troops and the new reserves;
- funding for operational sustainability; and
- funding to acquire new equipment and materiel both before and after policy reviews.

This significant investment in our military means that we will be able to better meet our responsibilities abroad and protect our people at home.

And there is no more fundamental—or important—role for government than protecting its citizens from harm. Over the past three years, our government has invested more than $8 billion to enhance the safety and security of Canadians.

With this budget we will provide an additional $1.2 billion for measures relating to air and marine security, border issues, policing, emergency preparedness and response capabilities.

Some events in our world—such as the tsunami—are unpredictable and their impact immediate. Others are longer-term, the problems deeply entrenched, their causes and consequences measured in generations. Poverty is one of these.

The United Nations has set an ambitious agenda of cutting global poverty in half by 2015. To help reach this objective, Canada pledged, in 2002, to double its international assistance within 10 years.

So far, we have been moving in that direction by individual annual increments. Today, I am pleased to confirm a multi-year commitment—consistent with our pledge—of $3.4 billion in international assistance over the next five years.

Nowhere is the need greater than in Africa. By almost any measure it is a continent in crisis. It faces enormous economic challenges and health problems the scope and scale of which defy comprehension. More than 260,000 people die in Africa of AIDS and malaria—the equivalent of a tsunami—every single month.

Canada took the lead in raising Africa's profile on the world agenda, starting with our hosting of the G-8 Summit in Kananaskis, Alberta, in 2002. Since then, we have continued to be heavily involved. It has been my great honour to represent Canadians on the Commission for Africa, a recent United Kingdom initiative which builds on what Canada began.

To demonstrate our continuing commitment to the people who need our help most, this budget takes specific action on two important fronts.

First, we are providing $342 million to accelerate the fight against the diseases which are wreaking such havoc in Africa—AIDS, tuberculosis, malaria and polio.

And second, we are renewing Canada's international leadership on the issue of debt relief. Through both multilateral and bilateral initiatives, we have eased the debt loads of poor countries struggling to lift themselves up—most recently in Madagascar, Ethiopia, Ghana and Senegal. In this budget, we set aside $172 million for a new Canadian debt relief initiative and $34 million targeted to the world's most heavily indebted countries.

## Conclusion

Mr. Speaker, behind all of the words and numbers in this budget are decisions that reflect directions set and commitments made. And taken together they help shape the course of our national journey.

In the longer sweep of our history, each generation has faced daunting challenges and defining moments. Whether it was the creation of this country in the first place, its union by rail, the fighting of world wars, the great social policies of the post-war era, or the elimination of the deficit in our time, Canadians have always risen to the challenges before them.

Today, we build on what has gone before—and for those who will come after—not by making promises, but by making good on promises. By delivering on commitments.

And by having a sense of the future, of where we want to go and the country we want to build.

A competitive, productive 21st century economy—knowledge-based, technology-driven, highly skilled and excellent by every measure.

An inclusive and caring society in which fairness and equality of opportunity are the measures of our progress.

A clean and green country which prizes a natural heritage of extraordinary richness and preserves it with greatest care.

A confident people, respected and trusted as model citizens of the world.

It is to that vision of our country that this budget is directed and to that cause that this government is committed.

Delivering on Commitments

# The Budget in Brief 2005

The Honourable Ralph Goodale, P.C., M.P.
Minister of Finance

February 23, 2005

Canada

Delivering on Commitments

# The Budget in Brief 2005

Department of Finance Canada
Ministère des Finances Canada

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# Budget 2005—Delivering on Commitments

## Introduction

Budget 2005 presents a balanced strategy to build a 21st century economy that will improve the well-being of all Canadians. A productive, growing economy creates jobs, boosts incomes, and supports investments in the quality of Canadian life, and gives us the means to meet our global responsibilities and seize global opportunities.

There are four key drivers that will increase Canadians' well-being and ensure that our citizens can achieve their goals:

- A robust economy.
- Secure social foundations.
- A sustainable environment.
- A sound fiscal framework.

With the proper policy framework, these four drivers operate as a "virtuous circle," with each element strengthening and reinforcing the others to foster environmentally sustainable growth and an improving quality of life for Canadians. For example:

- A robust economy provides resources for increased investments to meet social and environmental objectives.
- A secure society that invests in health and education provides the opportunities and the confidence for all Canadians to participate in the economy, contributing to a better standard of living.
- An environmentally sustainable economy improves the health of Canadians today, safeguards—and reduces costs for—future generations, and provides innovative opportunities to enhance the competitiveness of business.
- Maintaining a sound fiscal framework supports the economy while still providing the Government with the resources to help address economic, social and environmental priorities of Canadians.

Budget 2005 incorporates all of these elements while maintaining a balanced budget, and setting aside additional resources for debt reduction and to deal with unforeseen economic shocks.

The Government has made several commitments to Canadians:

- To secure Canada's social foundations.
- To implement policies that support a productive and growing economy.
- To develop a green economy and sustainable communities.
- To meet Canada's global responsibilities.
- To maintain a sound fiscal framework.

Budget 2005 delivers on these commitments.

# Highlights

## Economic Developments and Prospects

- Canada has achieved an outstanding fiscal turnaround since the early 1990s. This, combined with low and stable inflation, has enabled the economy to better weather economic shocks.
- Exceptionally strong employment growth (the highest in the Group of Seven) and improved productivity growth have given Canada the fastest rate of increase in living standards among G-7 countries since balancing the budget in 1997.
- The Canadian economy grew at a solid pace in the first three quarters of 2004, thanks to consistent growth in final domestic demand. Real gross domestic product (GDP) advanced 2.7 per cent in the first quarter before strengthening to 3.9 per cent in the second and 3.2 per cent in the third.
- Since the end of 2002, the Canadian dollar has appreciated more than 25 per cent against the U.S. dollar. On a trade-weighted basis, the Canadian dollar has risen more than any other major floating currency. Adjusting to this rapid appreciation is a major challenge for Canadian exporters.
- Private sector forecasters expect somewhat weaker near-term economic growth than previously anticipated. When surveyed in December by the Department of Finance, the forecasters expected growth to be 2.9 per cent in 2005, down from 3.2 per cent in the November 2004 *Economic and Fiscal Update*. For 2006, they expect growth of 3.1 per cent, unchanged from the November Update.
- Despite the still-encouraging growth outlook for the Canadian and global economies, there remain significant risks.
- In the near term, the large and persistent U.S. current account deficit presents a key risk. This imbalance could result in a further depreciation of the U.S. dollar against all major currencies, including the Canadian dollar. The speed at which the economy adjusts to an appreciation of the Canadian dollar and the magnitude of the adjustment are also uncertain.

- Over the medium term, the U.S. budget deficit remains the principal downside risk. If not corrected, the deficit could put upward pressure on interest rates, crowd out business investment and dampen growth in both the U.S. and Canada. Conversely, a serious effort to reduce the budget deficit could temporarily lower growth in the U.S., which would also negatively affect Canadian growth.
- While the risks to the outlook are negative on balance, a strong macroeconomic framework has improved Canada's ability to deal with these risks should they materialize.

## Securing Canada's Social Foundations

- The 2004 10-Year Plan to Strengthen Health Care set out a commitment by all governments to improve access and reduce wait times. In support of the plan, the Government of Canada committed $41.3 billion over the next 10 years in new federal funding for provinces and territories.
- A new framework will be established for Equalization and Territorial Formula Financing providing $33.4 billion more over 10 years than the annual amounts for 2004–05 estimated in Budget 2004.

### *Health Care*

- Budget 2005 provides $805 million over five years to deliver on the Government's commitment to invest in health care in direct federal support in the following areas:
  - Health human resources.
  - Healthy living and chronic disease prevention.
  - Pandemic influenza preparedness.
  - Drug safety.
  - Environmental health.

### *Tax Changes to Improve Fairness and Support Participation*

- Budget 2005 makes the tax system fairer by:
  - Acting on the recommendations of the Technical Advisory Committee on Tax Measures for Persons with Disabilities.
  - Doubling, to $10,000, the maximum amount of medical- and disability-related expenses that caregivers can claim on behalf of their dependants, beginning with the 2005 taxation year.
  - Introducing a non-refundable tax credit to recognize specified adoption expenses, up to a maximum of $10,000, effective for the 2005 tax year and beyond.

### *Improving Support for Seniors*

- To address the evolving needs of seniors:
  - Guaranteed Income Supplement benefits for low-income seniors will be increased by $2.7 billion over five years as a result of increases in monthly benefits of $36 for singles and $58 for couples by January 2007.
  - Funding for the New Horizons for Seniors program will be increased from $10 million to $25 million a year to promote voluntary sector activities by and in support of seniors.

### *Strengthening Aboriginal Communities*

- The Government of Canada is committed to a renewed partnership with Aboriginal people and has initiated a Canada-Aboriginal Peoples Roundtable process that will be completed later this year.
- Budget 2005 invests $735 million over the next five years, in addition to the $700 million over five years for Aboriginal health programs announced in September 2004, to address urgent needs, with a focus on children, youth and their families, including:
  - $345 million over the next five years for First Nations early learning and child care, special education, and child and family services.
  - $340 million over the next five years for First Nations housing on reserves, Aboriginal languages and culture, and the Aboriginal Healing Foundation.

### *Supporting Canada's Heritage*

- In support of culture, diversity and sport, Budget 2005:
  - Commits an additional $688 million for the Tomorrow Starts Today art and culture package that builds on earlier investments and extends the initiative for a full five years.
  - Invests $171 million over five years to celebrate Canada and to help Canadian diversity find its voice in communities across the country.
  - Provides $70 million a year to Sport Canada, doubling its ongoing funding to $140 million in 2005–06 from $70 million in 2004–05.

### *Justice Framework*

- Budget 2005 provides funding for measures that will help address the social origins of crime and victimization in Canada, and to ensure that war criminals do not find safe haven in Canada.

# A Productive, Growing and Sustainable Economy

## Investments in Canadian Capabilities

### *Investing in People*

Building on investments made by the Government of Canada in recent budgets, Budget 2005 makes significant strategic investments in building a highly skilled and adaptable workforce.

- $5 billion over five years to start building a framework for an Early Learning and Child Care initiative in collaboration with provinces and territories.
- An additional $120 million over five years to improve the Special Education Program for First Nations children living on reserve.
- $398 million over the next five years to enhance settlement and integration programs and improve client services for newcomers to Canada.
- $125 million over the next three years for next steps for the Workplace Skills Strategy.
- $30 million over three years to the National Literacy Secretariat.

### *Investing in Ideas and Enabling Technologies*

Budget 2005 makes major strategic investments in building a world-class research environment in Canada through measures such as:

- $375 million over five years for the three federal research granting councils.
- $165 million to Genome Canada to sustain its support for breakthrough genomics research.
- $126 million over five years to support groundbreaking research in particle physics at the University of British Columbia's TRIUMF science facility.
- $75 million over five years to help meet the indirect costs of federally supported reseach at hospitals and universities.

### *Investing in Regions and Sectors*

Budget 2005 helps strengthen the economies of Canada's regions through initiatives, including:

- Increased funding of $800 million for regional economic development agencies in Atlantic Canada, Western Canada, Quebec and Northern Ontario.
- $120 million towards the development of a comprehensive Northern Strategy for economic development.
- Additional investments in key sectors of Canada's economy such as agriculture and space.

## Economic Policy Framework

### *A Fair and Competitive Tax System*

Budget 2005 reduces taxes for individuals—especially low- and modest-income Canadians. It will also promote economic growth by making Canada's tax system more efficient and competitive. Under the measures set out in the budget:

- The amount of income that all Canadians may earn without paying federal income tax will increase to $10,000. 860,000 taxpayers will be removed from the tax rolls, including about 240,000 seniors.
- RRSP annual contribution limits will be increased to $22,000 and corresponding increases made for employer-sponsored registered pension plans.
- The corporate surtax will be eliminated and the 21-per-cent general corporate income tax rate will be reduced to 19 per cent, maintaining our tax rate advantage relative to the U.S.
- Capital cost allowance rates will be better aligned with the useful life of assets.

### *More Efficient and Effective Markets*

To improve Canada's business climate, Budget 2005 commits the Government to:

- Eliminate the 30-per-cent foreign property limit on pension investments.
- Increase deposit insurance coverage to $100,000 from $60,000.
- Consult with Canadians on refinements to the legislative framework for the financial sector to improve consumer protection and promote greater efficiency.
- Work with the provinces and territories to reach an agreement by year-end on an enhanced system of securities regulation.
- Introduce regulatory reforms and other initiatives that will advance Canada's record of strong economic growth and job creation.

# Moving Toward a Sustainable Environment and Sustainable Communities

### *Ensuring a Sustainable Environment*

In Budget 2005, the Government of Canada is making major investments to preserve our natural environment and to address climate change. These investments, totalling over $5 billion over the next five years (including over $3 billion of new funding), include:

- $1 billion for an innovative Clean Fund to further stimulate cost-effective action to reduce greenhouse gas emissions in Canada.
- $225 million to expand the successful EnerGuide for Houses Retrofit Incentive program for Canadians.
- $200 million to support the development of a Sustainable Energy Science and Technology Strategy.
- $200 million over five years and a total of $920 million over 15 years to further stimulate the use of wind power to generate energy. This delivers on the Government of Canada's commitment to quadruple the Wind Power Production Incentive.
- $97 million over five years and a total of $886 million over 15 years to stimulate the development and use of forms of renewable energy other than wind, such as small hydro, biomass and landfill gas.
- An estimated $295 million in enhanced tax incentives through accelerated capital cost allowance (CCA) to encourage investment in efficient and renewable energy generation and establishing that new accelerated CCA will only be considered for investments in green technology.
- $300 million provided to enrich the Green Municipal Funds, which make investments in innovative green municipal projects. Half of this amount will be targeted to the cleanup of brownfields.
- $85 million to fund strategic investments to minimize the risk of invasive alien animal and plant species damaging our environment and economy.

- $40 million to improve the ecological integrity of the Great Lakes ecosystem.
- $28 million over two years to preserve the health of Canada's oceans. $15 million per year ongoing to ensure the conservation of our fisheries in the Northwest Atlantic.
- $90 million to support scientific assessments and research under the Canadian Environmental Protection Act, which will help reduce the exposure of Canadians to potentially harmful substances.
- $209 million for the maintenance and acquisition of capital assets in national parks and $60 million to restore the ecological integrity of parks.

### *Delivering on a New Deal for Cities and Communities*

Budget 2005 delivers on the Government of Canada's commitment to provide cities and communities with long-term, reliable sources of funding to meet their needs. Specifically, the Government commits to:

- Implement its pledge to share $5 billion worth of gas tax revenue over the next five years:
  - In 2005–06, the share of the federal gas tax dedicated to cities and communities will be $600 million.
  - By 2009–10, the share will increase to $2 billion, representing 5 cents per litre.
- Renew federal infrastructure programs such as the Canada Strategic Infrastructure Fund and the Municipal Rural Infrastructure Fund, which invest more than 50 per cent of funding toward sustainable infrastructure.

The gas tax sharing, the goods and services tax (GST) rebate implemented in Budget 2004 and the Green Municipal Funds (referenced above) will provide Canadian communities with over $9 billion over the next five years.

# Meeting Our Global Responsibilities

### *International Assistance*

- An increase of $3.4 billion over the next five years for international assistance with the goal of doubling assistance by 2010–11 from its 2001–02 level.
- Double aid to Africa by 2008–09 from its 2003–04 level.
- $172 million for a new Canadian debt relief initiative for the world's poorest countries plus an additional $34 million contribution to the Heavily Indebted Poor Countries (HIPC) debt relief initiative.
- $425 million to support the immediate humanitarian response to the tsunami disaster and long-term reconstruction, including approximately $200 million to match donations made by individual Canadians.
- $342 million in additional funding to combat diseases in developing countries. This includes funds for The Global Fund to Fight AIDS, Tuberculosis and Malaria, the Global Alliance for Vaccines and Immunization (GAVI), and the Global Polio Eradication Initiative, with the goal of eradicating polio worldwide in 2005.
- A new approach for international assistance funding designed to better deal with diverse international commitments and unforeseen events, while providing greater stability to core spending.

### *Foreign Policy*

- $500 million over five years to fund global peace and security initiatives, from the $3.4-billion increase in international assistance, to promote international security.
- $42 million over five years for increasing the diplomatic staff of Canada's diplomatic missions abroad to strengthen our capacity to pursue a more engaged foreign policy and to represent Canada's interests more effectively.
- $59 million to address the most pressing security needs at Canadian diplomatic missions abroad.

### *Defence and Security*

- Over $12 billion in new money for defence ($7 billion in budgetary funding) over five years—the largest increase in a five-year period in the last 20 years.
- Delivers on the Government's commitment to expand the Canadian Forces (the Forces) by 5,000 troops and the reserves by 3,000.
- Important investments in the operational sustainability of the Forces.
- More than $2.5 billion for new medium capacity helicopters, utility aircraft, military trucks and specialized facilities.
- $3.8 billion for capital and other projects to support new roles for the military identified in the upcoming defence policy review.
- $1.0 billion over five years in support of key national security initiatives.

### *Trade and Investment*

- A renewed commitment to enhance our presence in fast-growing emerging markets, while strengthening our access to North American markets.
- New support for enhanced science and technology cooperation with other countries.

## Sound Financial Management

- The Government is committed to sound financial management, including delivering balanced budgets or better through prudent budget planning, reducing the burden of the federal debt, and improving expenditure efficiency and oversight.

- After accounting for the fiscal impact of proposed new initiatives, Budget 2005 projects balanced budgets or better in 2004–05 and in each of the next five fiscal years. 2004–05 will mark the eighth consecutive balanced budget achieved by the Government of Canada, the first time this has happened since Confederation. According to the Organisation for Economic Co-operation and Development (OECD), Canada was the only Group of Seven (G-7) country to record a total government budget surplus in 2004, for the third consecutive year, and is projected to be the only country in surplus again in 2005 and 2006.

- The 2005 budget maintains the annual $3-billion Contingency Reserve. It also includes an additional amount for economic prudence to provide greater assurance that the balanced budget targets will be met. If not needed, the amounts set aside for economic prudence will be released to fund government priorities. The Contingency Reserve—if not needed to deal with unforeseen circumstances—will go each and every year to reduce the federal debt (accumulated deficit).

- This budget reaffirms the Government's objective set out in the 2004 budget to reduce the federal debt-to-GDP (gross domestic product) ratio to 25 per cent by 2014–15. As a result, debt-servicing costs will absorb a smaller share of revenues, placing the Government in a better position to deal with the fiscal pressures of an aging population.

- The federal debt (accumulated deficit) as a percentage of GDP is projected to fall to 38.8 per cent in 2004–05, down from its peak of 68.4 per cent in 1995–96. With the commitment to balanced budgets in each of the next five fiscal years, and based on the average private sector forecast for nominal GDP growth, it is estimated that the federal debt-to-GDP ratio will decline to about 30.6 per cent in 2009–10.

- Five-year projections are presented in this budget. This is for greater transparency, reflecting the fact that the vast majority of the commitments made in this budget extend beyond the traditional two-year budget horizon.
- The Cabinet Committee on Expenditure Review (ERC) has identified cumulative savings totalling almost $11 billion over the next five years. These savings have been reinvested in core responsibilities of the Government. The work of the ERC constitutes a significant first step toward a culture of ongoing reallocation and is complemented by other measures to improve financial accountability and management.
- The federal revenue-to-GDP ratio is projected to decline from 15.3 per cent in 2003–04 to 14.5 per cent by 2009–10, reflecting one-time revenue gains last year as well as the impact of the tax reduction measures announced in this and previous budgets.
- The ratio of program expenses to GDP will increase to 12.2 per cent in 2004–05, reflecting the substantial increase in transfers to provinces for health care and Equalization. For the remainder of the planning period, the ratio is projected to be 11.9 per cent.

**Table 1**
*Initiatives Included in 2004 Fall Update*

| | 2004–05 | 2005–06 | 2006–07 | 2007–08 | 2008–09 | 2009–10 | Total |
|---|---|---|---|---|---|---|---|
| | (millions of dollars) | | | | | | |
| 10-Year Plan to Strengthen Health Care[1] | 5,750 | 2,595 | 2,380 | 2,303 | 2,634 | 3,242 | 18,905 |
| Equalization/ Territorial Formula Financing framework | 1,454 | 1,590 | 2,042 | 2,508 | 2,992 | 3,493 | 14,080 |
| Additional BSE (bovine spongiform encephalopathy) | 311 | 187 | 24 | 12 | 12 | | 544 |
| Other | 40 | 35 | 73 | 61 | 42 | 42 | 294 |
| Total | 7,555 | 4,407 | 4,519 | 4,884 | 5,680 | 6,777 | 33,824 |

[1] Adjusted for impact of accounting for Wait Times Reduction Fund in 2004–05.

## Table 2

*Budget 2005 Initiatives*

| | 2004–05 | 2005–06 | 2006–07 | 2007–08 | 2008–09 | 2009–10 | Total |
|---|---|---|---|---|---|---|---|
| | | | (millions of dollars) | | | | |
| **Securing Canada's Social Foundations** | | | | | | | |
| Additional federal health investments | | 100 | 152 | 174 | 189 | 190 | 805 |
| Tax fairness | 5 | 62 | 62 | 72 | 72 | 82 | 355 |
| Seniors | | 89 | 439 | 718 | 746 | 773 | 2,765 |
| Strengthening Aboriginal communities | 40 | 142 | 187 | 102 | 82 | 82 | 635 |
| Supporting Canada's heritage | | 379 | 309 | 303 | 299 | 327 | 1,616 |
| Strengthening the justice framework | | 51 | 51 | 51 | 21 | 21 | 193 |
| Total cost | 45 | 823 | 1,200 | 1,419 | 1,408 | 1,474 | 6,369 |
| **A Productive, Growing and Sustainable Economy** | | | | | | | |
| Investing in people | 700 | 73 | 817 | 1,343 | 1,303 | 1,331 | 5,567 |
| Investing in ideas and enabling technologies | 235 | 111 | 119 | 122 | 114 | 111 | 811 |
| Investing in regions and sectors | 120 | 365 | 386 | 422 | 445 | 403 | 2,141 |
| A fair and competitive tax system | 15 | 187 | 557 | 1,152 | 4,301 | 6,556 | 12,768 |
| More efficient and effective markets | | 5 | | | | | 5 |
| Total cost | 1,070 | 740 | 1,879 | 3,039 | 6,162 | 8,401 | 21,292 |
| **Moving Toward a Sustainable Environment and Sustainable Communities** | | | | | | | |
| Ensuring a sustainable environment | 300 | 586 | 657 | 1,010 | 1,065 | 1,165 | 4,783 |
| Investments in communities: gas tax | | 600 | 600 | 800 | 1,000 | 2,000 | 5,000 |
| Total | 300 | 1,186 | 1,257 | 1,810 | 2,065 | 3,165 | 9,783 |
| Less amounts earmarked in previous budgets | | 470 | 550 | 750 | 250 | 200 | 2,220 |
| Total cost | 300 | 716 | 707 | 1,060 | 1,815 | 2,965 | 7,563 |
| **Meeting Canada's Global Responsibilities** | | | | | | | |
| International assistance | 711 | 100 | 368 | 657 | 970 | 1,307 | 4,113 |
| Strengthening National Defence | | 500 | 600 | 1,100 | 2,125 | 2,675 | 7,000 |
| Ensuring the security of Canadians | | 179 | 204 | 209 | 206 | 211 | 1,009 |
| Strengthening the capacity of the Foreign Service | | 13 | 15 | 18 | 18 | 18 | 82 |
| Setting new trade and investment priorities | | 4 | 4 | 4 | 4 | 4 | 20 |
| Total | 711 | 796 | 1,190 | 1,988 | 3,323 | 4,215 | 12,224 |
| Less amounts earmarked in 2004 fall Update | | | 268 | 557 | 870 | 1,207 | 2,901 |
| Total cost | 711 | 796 | 923 | 1,431 | 2,453 | 3,008 | 9,323 |
| **Other** | 903 | 367 | 551 | 951 | 801 | 776 | 4,349 |
| **Total spending and tax initiatives** | 3,029 | 3,442 | 5,260 | 7,900 | 12,640 | 16,623 | 48,895 |
| **Less ERC savings available for budget initiatives** | -287 | 460 | 937 | 1,661 | 2,064 | 2,219 | 7,054 |
| **Total net cost of initiatives** | 3,316 | 2,982 | 4,323 | 6,239 | 10,576 | 14,404 | 41,841 |

**Table 3**
*Initiatives Since Budget 2004*

| | 2004–05 | 2005–06 | 2006–07 | 2007–08 | 2008–09 | 2009–10 | Total |
|---|---|---|---|---|---|---|---|
| | (millions of dollars) | | | | | | |
| **Securing Canada's Social Foundations** | | | | | | | |
| 10-Year Plan to Strengthen Health Care[1] | 5,750 | 2,595 | 2,380 | 2,303 | 2,634 | 3,242 | 18,905 |
| Additional federal Health investments | | 100 | 152 | 174 | 189 | 190 | 805 |
| Equalization/Territorial Formula Financing framework | 1,454 | 1,590 | 2,042 | 2,508 | 2,992 | 3,493 | 14,080 |
| Tax fairness | 5 | 62 | 62 | 72 | 72 | 82 | 355 |
| Seniors | | 89 | 439 | 718 | 746 | 773 | 2,765 |
| Strengthening Aboriginal communities | 40 | 142 | 187 | 102 | 82 | 82 | 635 |
| Supporting Canada's heritage | | 379 | 309 | 303 | 299 | 327 | 1,616 |
| Strengthening the justice framework | | 51 | 51 | 51 | 21 | 21 | 193 |
| Total cost | 7,249 | 5,008 | 5,622 | 6,230 | 7,034 | 8,209 | 39,353 |
| **A Productive, Growing and Sustainable Economy** | | | | | | | |
| Investing in people | 700 | 73 | 817 | 1,343 | 1,303 | 1,331 | 5,567 |
| Investing in ideas and enabling technologies | 235 | 111 | 119 | 122 | 114 | 111 | 811 |
| Investing in regions and sectors | 431 | 552 | 410 | 434 | 457 | 403 | 2,686 |
| A fair and competitive tax system | 15 | 187 | 557 | 1,152 | 4,301 | 6,556 | 12,768 |
| More efficient and effective markets | | 5 | | | | | 5 |
| Total cost | 1,381 | 927 | 1,903 | 3,051 | 6,174 | 8,401 | 21,837 |
| **Moving Toward a Sustainable Environment and Sustainable Communities** | | | | | | | |
| Ensuring a sustainable environment | 300 | 586 | 657 | 1,010 | 1,065 | 1,165 | 4,783 |
| Investments in communities: gas tax | | 600 | 600 | 800 | 1,000 | 2,000 | 5,000 |
| Total | 300 | 1,186 | 1,257 | 1,810 | 2,065 | 3,165 | 9,783 |
| Less amounts earmarked in previous budgets | | 470 | 550 | 750 | 250 | 200 | 2,220 |
| Total cost | 300 | 716 | 707 | 1,060 | 1,815 | 2,965 | 7,563 |
| **Meeting Canada's Global Responsibilities** | | | | | | | |
| International assistance | 711 | 100 | 368 | 657 | 970 | 1,307 | 4,113 |
| Strengthening National Defence | | 500 | 600 | 1,100 | 2,125 | 2,675 | 7,000 |
| Ensuring the security of Canadians | | 179 | 204 | 209 | 206 | 211 | 1,009 |
| Strengthening the capacity of the Foreign Service | | 13 | 15 | 18 | 18 | 18 | 82 |
| Setting new trade and investment priorities | | 4 | 4 | 4 | 4 | 4 | 20 |
| Total | 711 | 796 | 1,190 | 1,988 | 3,323 | 4,215 | 12,224 |
| Less amounts earmarked in 2004 fall Update | | | 268 | 557 | 870 | 1,207 | 2,901 |
| Total cost | 711 | 796 | 923 | 1,431 | 2,453 | 3,008 | 9,323 |
| **Other** | 943 | 402 | 624 | 1,012 | 843 | 818 | 4,643 |
| **Total spending and tax initiatives** | 10,584 | 7,849 | 9,779 | 12,784 | 18,320 | 23,401 | 82,719 |
| **Less ERC savings available for budget initiatives** | -287 | 460 | 937 | 1,661 | 2,064 | 2,219 | 7,054 |
| **Total net cost** | 10,871 | 7,389 | 8,842 | 11,123 | 16,256 | 21,182 | 75,665 |

[1] Adjusted for impact of accounting for Wait Times Reduction Fund in 2004–05.

Delivering on Commitments

# Budget 2005

## Overview

**February 23, 2005**

Canada

105-02844/

## An Ambitious Agenda

The Government of Canada has presented an ambitious agenda and a clear commitment to Canadians in the following areas:

1 Maintaining sound financial management
2 Securing our social foundations
3 Achieving a productive and growing economy
4 Moving towards a green economy and sustainable communities
5 Meeting our global responsibilities

In Budget 2005, the Government is delivering on all of these commitments

## 1 Maintaining Sound Financial Management

### *Economic Outlook*

Robust consumer spending, fuelled by low interest rates and stable inflation, led to solid economic growth in the first three quarters of 2004. This, in turn, helped boost employment levels and wages in Canada. Indeed, the Canadian economy created 255,000 full-time jobs in 2004.

Private sector economic forecasters surveyed by the Department of Finance predict that Canada's economy will grow by 2.9 per cent in 2005, rising to 3.1 per cent in 2006.

However, Canada's economy faces a number of challenges:

- The continued rise of the Canadian dollar against the U.S. dollar is already affecting our export industries.
- The growing American budget deficit could lead to higher U.S. interest rates, which could dampen consumer and business spending in Canada's largest trading partner.

### *Fiscal Prospects*

Since balancing the budget in 1997–98, the Government of Canada has recorded seven consecutive budget surpluses.

Budget 2005 delivers on the Government's commitment to keeping its books balanced and Canada's debt on a permanent downward track. Specifically:

- It predicts balanced budgets or better in 2004–05 and in each of the next five fiscal years.
- Canada's debt-to-GDP (gross domestic product) ratio is expected to decline to 38.8 per cent in 2004–05, down from 68.4 per cent in 1995–96.
- The Government remains committed to reducing Canada's debt-to-GDP ratio to 25 per cent by 2014–15.

***Expenditure Review***

Budget 2005 incorporates the nearly $11 billion in savings identified by the Government's Expenditure Review Committee.

- Nearly $9.8 billion of these savings—or 89 per cent—will come from improved efficiencies in government-wide activities such as purchasing, property management and service delivery, and in the operations of individual departments.
- Efficiency savings in the employment insurance program and the operations of the Canada Pension Plan will be reallocated directly back into these programs.
- All other savings will be reallocated to the Government's highest priorities.

## 2 Securing Our Social Foundations

Recent Government of Canada commitments of over $75 billion in support of the 10-Year Plan to Strengthen Health Care and the new framework for Equalization and Territorial Formula Financing will provide provinces and territories with predictable and growing long-term support for the provision of health care and social services.

Budget 2005 takes further action to secure Canada's social foundations through a variety of measures.

***Health Care***

Budget 2005 provides $805 million over five years in direct federal health investments, including:

- $300 million over five years for an integrated strategy to encourage healthy living and prevent and control chronic diseases.
- $200 million to support health human resources and improve wait times and health performance information.
- $170 million over five years to implement measures to enhance the safety and effectiveness of drugs and other therapeutic products.

***Investing in People***

The Government of Canada aims to ensure that all individuals have the chance to succeed, achieve their potential and participate fully in the promise of Canadian society. Budget 2005 supports these goals through a number of initiatives, including:

- A commitment of $5 billion for a new Early Learning and Child Care initiative.
- Enhanced tax relief for people with disabilities and their caregivers.
- Increasing Guaranteed Income Supplement benefits for low-income seniors by $2.7 billion over five years.
- $735 million in new funding to strengthen Aboriginal communities, with a focus on children, youth and their families.
- $398 million for immigration settlement programs and client services.

## 3 Achieving a Productive and Growing Economy

Budget 2005 proposes measures aimed at building on Canada's economic strengths and ensuring that our economy remains globally competitive.

Budget 2005 proposes the following tax reductions:

- Increase the amount of income that all Canadians can earn tax-free to $10,000.
- Increase contribution limits for registered retirement savings plans and registered pension plans to $22,000.
- Eliminate the corporate surtax and cut the general corporate income tax rate to 19 from 21 per cent to maintain Canada's business tax advantage over the U.S.

Budget 2005 also commits the Government to:

- Eliminate the 30-per-cent foreign property limit on pension investments, effective immediately.
- Increase deposit insurance coverage to $100,000.
- Launch a review of legislation governing Canada's financial institutions to improve consumer protection and promote greater efficiency.

## 4 Moving Towards a Green Economy and Sustainable Communities

### *A Green Economy*

Budget 2005 delivers on the Government's commitment to address climate change and protect our natural environment by investing:

- $1 billion over five years to encourage cost-effective initiatives that will reduce greenhouse gas emissions in Canada under a new Clean Fund.
- $225 million over five years to quadruple the number of homes retrofitted under the EnerGuide for Houses Retrofit Incentive program.
- $300 million over five years in production incentives for wind power and other renewable sources of energy.
- Almost $900 million over five years to protect our natural environment, including the Great Lakes, Canada's oceans and national parks.

In addition, the budget includes tax incentives to encourage greater investment in and reliance on renewable energy sources.

### *Delivering a New Deal for Communities*

Budget 2005 implements the Government's commitment to share $5 billion in federal gas tax revenues with communities across Canada over the next five years for investments in sustainable infrastructure.

For 2005–06, communities will receive approximately $600 million. This annual amount will increase to $2 billion in 2009–10.

As well, the Government has committed to renewing existing infrastructure programs as required.

The Government will also provide an additional $300 million for the Green Municipal Funds in support of projects that deliver cleaner air, water and soil, as well as climate protection, to Canada's communities. Half of these funds will be dedicated to brownfield remediation.

## 5 Meeting Our Global Responsibilities

Budget 2005 includes a wide range of initiatives, including:

- $425 million to support the immediate humanitarian response to the Asian tsunami disaster and long-term reconstruction.
- Boosting international assistance by $3.4 billion over the next five years with the goal of doubling assistance from 2001–02 levels by 2010–11.
- $1 billion to further strengthen Canada's national security.

### *Defence*

Last October, the Government pledged to increase the size of Canada's Armed Forces by 5,000 permanent members, along with 3,000 additional reservists.

Budget 2005 delivers on this commitment while providing funding that goes far beyond it: $12.8 billion over five years (on a cash basis), the largest increase in defence spending in 20 years.

This increased funding will be used to improve training and address the Forces' operational readiness.

The additional funding will also be used to purchase new medium-capacity helicopters, trucks, utility aircraft and specialized facilities for Canada's elite anti-terrorist troops.

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Delivering on Commitments

# Budget 2005

## Expenditure Review for Sound Financial Management

February 23, 2005

Canada

Delivering on Commitments

# Budget 2005

## Expenditure Review for Sound Financial Management

Department of Finance Canada
Ministère des Finances Canada

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## Introduction

Budget 2005 incorporates almost $11 billion in new savings over five years—89 per cent from improved efficiencies in government operations—that will be reinvested in Canadians' priorities. This dynamic process of expenditure review and reallocation represents the second step in the cultural shift towards continuing transformation in the way that the Government manages the country's finances.

This transformation began with the first shift, from a culture of repeated federal deficits to one of delivering balanced budgets or better. Budget 2005 again keeps this commitment—for the eighth consecutive year.

However, responsible stewardship of taxpayers' money goes beyond balancing the books. It also requires a continuous quest for smarter financial management within government operations, and a never-ending process of reinvestment from less efficient or effective spending to areas that really matter for our country's future growth. This was a mandate given the Expenditure Review Committee of Cabinet by the Prime Minister, and the budget takes a first but important step in fulfilling this mandate.

It meant examining government operations for efficiency, excellence and relevance. We looked for areas in which existing spending could be reapplied to get more value for the taxpayer dollar, and to address the new and emerging needs of today, instead of just duplicating the way things were done 15 or 20 years ago.

This is the type of financial analysis that Canadian families and firms undertake every day. Families change their spending as careers evolve, as children age and health conditions change. Businesses do the same to meet the opportunities and challenges of new technologies and market competition. Canadians deserve the same realism and resourcefulness from their federal government.

The almost $11 billion in savings the Committee identified represents a milestone, but not the end of the journey. As Canada's deficit-eliminating experience illustrates, lasting change requires sustained commitment. The Government's commitment can and will continue, so that a permanent culture of value-for-money becomes as ingrained as our record of fiscal prudence and budget success.

The Honourable John McCallum
Chair, Expenditure Review Committee of Cabinet and
Minister of National Revenue

## Expenditure Review: Overview

In Budget 2004, the Government announced it was launching several initiatives to strengthen financial management and operational integrity. These included re-establishing the Office of the Comptroller General; strengthening the internal audit functions in federal departments; the application of modern information systems to better track spending; and public disclosure of federal contracts over $10,000. Budget 2004 also secured the $1-billion reallocation of funding to higher-priority programs promised in the 2003 budget.

The goal of these initiatives is to help transform the way government works. They aim at serving Canadians better by delivering programs and services in the most effective way possible, and by providing the ongoing financial discipline needed to ensure that every taxpayer dollar the Government spends is a dollar well spent.

In tandem with these measures, the Government also announced the creation of the Expenditure Review Committee (ERC) of Cabinet. Its mandate was to commence a rigorous review of federal spending, testing for relevance, efficiency and excellence, and to submit recommendations to the Prime Minister prior to Budget 2005.

The work of the Expenditure Review Committee, however, is also a mechanism to ensure that tomorrow's government spending is consistent with the social and economic goals of Canadians. Savings identified in the course of expenditure review can provide the Government with further funds to invest in today's priorities and tomorrow's opportunities. This means that, by systematically rooting out waste and inefficiency, and reallocating funds to areas that matter most to Canadians, expenditure review is a win-win process.

Budget 2005 incorporates the ERC's review of federal spending. Over a four-month period, the Committee undertook a detailed, bottom-up review of federal spending both horizontally—government-wide activities—and by individual department. This process resulted in Ministers putting together a package of measures that will begin to transform the way the Government operates and provide almost $11 billion in savings.

Specifically, as a result of this review:

- Government purchasing will be streamlined, consolidated and made more efficient.
- Property management within the public service will increasingly follow modern management principles.

- The delivery of federal services and programs to Canadians will be improved with "one-stop shopping" by implementing the Service Canada initiative.
- Departments will ensure that their programs are as efficient as possible and the overhead costs minimized to the extent possible—consistent with improved quantity or quality of service where feasible. Programs that do not work will be eliminated.
- Investments that need to be made to achieve this transformation will be undertaken, and are included in determining the savings to be delivered.
- The expenditure review package will be implemented by the Treasury Board.

Combined with the reinvestment of these savings in the federal government's core responsibilities—being announced in Budget 2005—the expenditure review exercise makes substantial strides in pushing forward the much-needed process of reallocation.

Looking ahead, expenditure review will continue, consistent with the objectives described in Budget 2004.

## Expenditure Review: The Package

The Expenditure Review Committee has identified cumulative savings totalling $10.9 billion over the next five years, starting with an initial amount of $837 million in 2005–06. Just over 89 per cent of these savings—$9.8 billion—will come from improved efficiencies. The overall package has been incorporated in Budget 2005.

There are two key components to the expenditure review savings package: government-wide efficiencies and individual departmental initiatives. Table 1 provides a summary of each component of the package, and highlights the share of total savings coming from the combination of government-wide and departmental efficiencies.

### Government-Wide Efficiencies

Government-wide efficiencies include initiatives on federal purchases (procurement), property management and service delivery.

The package on procurement measures will ensure that the federal government better pursues opportunities to reduce the cost of its purchases, by using the size of the federal government to get the best possible price. To achieve this goal, it will become mandatory for all government departments to buy their products at established prices (known as "standing offers") negotiated by the Department of Public Works and Government Services Canada (PWGSC). Savings over the five-year period will be $2.6 billion (Table 1).

The savings on property management are based on more efficient and economic use of available space, and contracting out services where the private sector is less costly. Savings over the five-year period will be $1 billion (Table 1).

The federal government provides many services and benefits to Canadians—including employment insurance (EI) payments; income security programs such as Old Age Security payments; veterans benefits; grants on contributions to registered education savings plans; and a wide range of business programs and assistance. However, Canadians have expressed growing concern about the complexity of the system, and their ability to access information and service smoothly and swiftly.

The Government agrees that services can be substantially improved—while also reducing overhead cost to the taxpayer. That is why the ERC package proposes to implement Service Canada to provide one-stop service to meet the full range of client needs.

Service Canada will provide Canadians with simpler, more convenient and higher-quality services with increased options. Benefits will include better coordination of the delivery of federal services; a more accessible and effective federal presence in regions; and the elimination of waste, overlap and duplication. Savings over the five years will be $3.05 billion (Table 1).

## Departmental Initiatives

As part of the expenditure review process, individual federal departments were tasked to identify, as a point of reference, expenditure reductions of at least 5 per cent in their direct program spending base (excluding statutory—or legislated—expenditures). These savings were to come from improvements in their operations, and a rigorous assessment of the relevance and effectiveness of current programs. The ERC Ministers reviewed these proposals to ensure that priority areas were not undercut—including inadvertent "horizontal" impacts on other departments.

Cumulative departmental savings over the five-year period will be nearly $4 billion, the large majority resulting from improved program and administrative efficiencies. Actual program reductions or elimination will provide savings of $104 million in the first year, rising to $275 million by year 5—for a total of about $1 billion (Table 1).

**Table 1**
*Total Savings—Expenditure Review Package*

| | 2005–06 | 2006–07 | 2007–08 | 2008–09 | 2009–10 | Total |
|---|---|---|---|---|---|---|
| | (millions of dollars) | | | | | |
| **Government-wide efficiencies** | | | | | | |
| Property management | 150 | 150 | 170 | 255 | 300 | *1,025* |
| Procurement | 59 | 204 | 598 | 841 | 888 | *2,590* |
| Service delivery | 265 | 420 | 805 | 780 | 780 | *3,050* |
| Subtotal | 474 | 774 | 1,573 | 1,876 | 1,968 | *6,665* |
| **Departmental initiatives** | | | | | | |
| Program efficiencies | 128 | 196 | 320 | 342 | 360 | *1,346* |
| Administrative efficiencies | 106 | 230 | 353 | 371 | 385 | *1,445* |
| Program elimination/reduction | 104 | 205 | 274 | 274 | 275 | 1,132 |
| Subtotal | 337 | 631 | 947 | 987 | 1,021 | 3,923 |
| Employee benefit savings | 26 | 60 | 67 | 81 | 91 | 325 |
| **Grand total** | 837 | 1,465 | 2,587 | 2,944 | 3,079 | 10,913 |
| % from efficiencies | | | | | | 89% |

Notes: Italicized numbers denote efficiencies. Calculation of percentage efficiencies excludes employee benefits in the denominator.

## Action on Procurement

The Government believes it must constantly strive to find new ways to reduce the cost of delivering government services and use the resources saved to deliver positive, effective programs that help improve Canadians' well-being. To meet this goal, ensuring that the Government—the largest "enterprise" in Canada—does not overpay for its billions of dollars in purchases, has to be an important objective. The Government believes it can reduce the "procurement" cost through:

- Consolidating purchasing government-wide, so that it can leverage its buying power to get the best possible prices.
- Using a single buyer to negotiate the best possible price.
- Reducing administrative, compliance and reporting costs through more effective use of technology.

### Example: Savings on a Computer

Randy's manager approves his order for a $2,000 computer from a shop across the street because the system fits his needs perfectly—even though Public Works had negotiated a standing-offer price of $1,500 for a comparable, but not exactly the same, computer from another supplier.

Had Public Works been able to consolidate purchases like Randy's—and order large quantities of computers under the standing offer—it may have been able to get an even better price of about $1,200 per system. In other words, getting Randy to buy the computer under the new policy would save the Government—and taxpayers—$800 on each purchase.

To examine the extent to which potential savings could be realized, the Government of Canada undertook a government-wide review of procurement. An experienced inter-departmental task force interviewed 17 major companies and 13 trade associations; analyzed 176 Procurement Review Committee cases; scrutinized 112 audit reports; and reviewed 4 countries and 10 provinces for best practices in procurement. The ERC accepted the recommendations made by this task force, and they are incorporated in the Budget 2005 savings proposals.

## Action Plan

Moving away from decentralized purchasing, which is now the norm, to coordinated bulk purchasing may reduce managerial flexibility. But this cost appears justified—with exceptions closely managed—in view of the considerable savings it can provide, as shown in Table 2.

**Table 2**
*Savings Potential for Selected Commodities*

| Commodity | Savings potential |
|---|---|
| | (per cent) |
| Commercial software | 15 |
| Audiovisual equipment | 14 |
| Furniture | 20 |
| Office equipment | 12 |
| Office supplies | 34 |
| Maintenance, repair and overhaul | 24 |
| Printing services | 12 |
| IT/technical/contract services | 14 |
| Overnight delivery/parcel | 14 |

Source: Public Works and Government Services Canada—IBM Report, 2004 (unpublished).

The Government proposes the following action plan to realize procurement savings.

- It will be mandatory for departments to use "standing offers" negotiated by PWGSC, with any exceptions managed centrally.
- It is proposed that the Department of Public Works and Government Services Act be amended to give the Minister of Public Works and Government Services full and exclusive responsibility for procurement of goods and services (delegated as necessary and based on service level agreements with departments).
- PWGSC will have the authority to negotiate for purchases on behalf of the whole of government.
- To ensure that the Government of Canada gets the best possible price for its purchases, each new contract negotiated will include:
  - Dynamic pricing, so a contract can be reopened if prices decline in the marketplace.
  - Lower prices guaranteed by the supplier when a competitor is offering a lower price in "reasonable" situations (except for distress sales).
  - After-the-fact reimbursement for any overpayments.
  - Strengthened vendor performance policy.

- It is proposed that the Financial Administration Act (Section 32) be amended to permit PWGSC to commit to a minimum volume of purchases on behalf of the Government.
- The Canadian International Trade Tribunal (CITT) arbitrates contract-bidding disputes between the federal government and its suppliers. The Government will streamline the CITT regulations regarding disputes with vendors to make them more effective and more consistent with those of our trading partners, particularly the United States.
- PWGSC will develop and implement higher service standards based on the commitment to a 50-per-cent reduction in the time it takes to negotiate a contract.
- A new governance structure for oversight of PWGSC in implementing the action plan will be put in place.
- The Government will monitor and address impacts on small and medium-sized enterprises and regions. An office of small and medium-sized enterprises will be created at PWGSC to assist such firms to access government contracts. Policies will be put in place as required.
- On travel, the federal government will benefit from the new contract it has put in place to get best prices.
- A "green" procurement policy will be developed by 2006 to ensure that the federal government uses environmentally friendly goods and services wherever practical.

Savings through improved procurement practices will reach a cumulative total—after program investments of $90 million—of some $2.5 billion over five years (Table 3). Investments will be required to fund the Government of Canada Marketplace (the tool for electronic procurement), an enhanced procurement tracking system, the establishment of commodity management teams, and the set-up of a Core Implementation Group.

**Table 3**
*Savings—Government Procurement*

| | 2005–06 | 2006–07 | 2007–08 | 2008–09 | 2009–10 | Total |
|---|---|---|---|---|---|---|
| | | | (millions of dollars) | | | |
| Use existing standing offers | 53 | 122 | 267 | 311 | 311 | 1,064 |
| Get better prices | 6 | 29 | 228 | 361 | 370 | 994 |
| Travel modernization | – | 50 | 80 | 115 | 130 | 375 |
| Administrative savings | – | 3 | 23 | 54 | 77 | 157 |
| **Total savings** | 59 | 204 | 598 | 841 | 888 | 2,590 |
| Investment needed at PWGSC | (20) | (25) | (25) | (20) | – | (90) |
| **Net savings** | 39 | 179 | 573 | 821 | 888 | 2,500 |

## Action on Property Management

The Government of Canada is the largest single user of office space in Canada. It accommodates some 284,000 public servants in 5.7 million square metres of space. About half of this space is in the National Capital Region.

Analyses undertaken by PWGSC and the Auditor General show that the cost of managing federal property can be reduced through more efficient use of space and by relying on more efficient management. And the potential for savings is large—especially in light of the fact that PWGSC manages over 420 buildings and 2,000 leases on an ongoing basis, and has 1,200 employees engaged in providing architectural, engineering, and property management services to other departments.

### Action Plan

The expenditure review action plan for savings on property management includes the following:

- **Accommodation standards.** The Government will reduce the current average level of space utilization—over 21 square metres per employee—to 18 square metres per employee, a level more consistent with private sector benchmarks. Fit-up standards, for construction, cabling, etc., will also be adjusted from the current average cost of $400 per square metre to a PWGSC standard of $313 per square metre.
- **Inventory management.** The Government will improve its leasing strategies to ensure a more strategic use of lower-cost accommodation outside municipal "cores"—downtown areas—and the more timely negotiation of leases to ensure the best possible rate from landlords. This will also include improved management of repairs and maintenance contracts.
- **Outsourcing.** The Government will hire private sector experts in cases where significantly lower fees for project costs and management can be achieved.

Savings from improved property management—after investments of $100 million—will total $925 million over five years (Table 4). Investments will be required to develop new information management systems to optimize space use and minimize cost, to provide skills development, and training to perform new tasks.

**Table 4**
*Savings—Property Management*

| | 2005–06 | 2006–07 | 2007–08 | 2008–09 | 2009–10 | Total |
|---|---|---|---|---|---|---|
| | | | (millions of dollars) | | | |
| Enforcing accommodation standards | 50 | 85 | 95 | 120 | 150 | 500 |
| Improved inventory management | 40 | 50 | 60 | 70 | 80 | 300 |
| Outsourcing and overhead reductions | 10 | 15 | 15 | 65 | 70 | 175 |
| Non-essential capital deferral | 50 | | | | | 50 |
| **Total savings** | 150 | 150 | 170 | 255 | 300 | 1,025 |
| Investments at PWGSC | (20) | (20) | (20) | (20) | (20) | (100) |
| **Net savings** | 130 | 130 | 150 | 235 | 280 | 925 |

## Service Canada

The concept of Service Canada—a "one-stop" point for Canadians to receive all their government services—is not new. The Expenditure Review Committee examined the concept, reviewed the work done to date and undertook new work—and concluded this was indeed an idea whose time has come. In fact, the Service Canada model fits perfectly with the ERC mandate of finding ways to improve the delivery of federal programs and also lowering costs.

The federal government provides a wide range of benefits and services to Canadians—everything from paying EI benefits to issuing passports to accepting tax returns and payments on-line. However, Canadians have concerns about how complex government has become, and how many separate departments or programs they have to deal with. They often ask why they have to fill out so many forms asking the same information. And they wonder why they get "bounced around" from one place to another—instead of a single point of contact for all of their business with government.

### Action Plan

The Expenditure Review Committee has confirmed that the Government needs to fundamentally transform the way Canadians get their services from the Government. Service Canada will be one of the biggest single reforms ever in federal operations, and will be accomplished on a government-wide basis. When completed, over a three-year period, it will:

1. Deliver seamless service that is integrated, easy to access, simple to use, and tailored for the individual circumstance. Canadians will be able to get benefit payments without having to apply or complete a multitude of forms, and resolve the majority of any issues, needs or problems they have on a single, first contact with the Government.
2. Enhance the integrity of programs by building public trust and confidence and ensuring that the right client receives the right service or benefit at the right time and for the intended purpose.
3. Bring together the many services and benefits offered to Canadians by creating a common, integrated service delivery capability.
4. Make government more accountable—to citizens and to Parliament—for delivering better service and more effective use of hard-earned tax dollars.

## Better Service: Example 1

**For persons with disabilities**

- Today, a person with a disability is offered separate service by multiple federal departments, other levels of government and private organizations. In fact, some 44 separate government programs for persons with disabilities can be found on the Canada Benefits site.
- Many of these programs have their own channels for delivering service, with a multitude of offices, phone numbers and Internet sites. They don't share information easily or quickly, even when they have similar information requirements (for example, the disability tax credit and CPP disability pension).
- In addition, if applicants find out they aren't eligible for a program, they are not always directed to other supports that might be available.
- Service Canada will provide "one-stop" service for the delivery of services and benefits for persons with disabilities. This means that citizens will be able to go to one place and get the complete set of services and benefits they need. They will only have to provide information once—simply, easily and with dignity. They will have the choice of how they get service—in person, by phone, over the Internet or through the mail.
- To accomplish this, application requirements and processes will be more integrated. This could be done as a start across federal departments for the disability tax credit (Canada Revenue Agency), CPP disability pension and disability pensions offered through Veterans Affairs.

## Better Service: Example 2

**Reporting a death in the family**

At least 10 separate interactions with government are required to notify government of a death (to stop Old Age Security, CPP, and/or Veterans Allowance payments, or to deactivate a Social Insurance Number). And delayed death notifications result in $100 million per year in CPP and Old Age Security overpayments. Also, it takes two months on average for the Government to be notified with a paper copy of the death certificate.

In the future, citizens will be able to notify provincial vital statistics organizations once of a death in the family. This information will then be provided electronically to the Social Insurance Registry managed by Service Canada, which then will provide notification of death to multiple government programs.

**Better Service: Example 3**

**For the birth of a child**

Very soon after the birth of a child, new parents have to fill out numerous applications required by different government agencies. Instead of applying separately for EI parental benefits, a birth registration, a birth certificate, a new Social Insurance Number, a new health card and a Canada Education Savings Grant, Service Canada will work towards combining these multiple processes into one step.

The service transformation will also reform how government works by:

- Becoming citizen-centred and achieving better social outcomes.
- Strengthening access to federal points of service and relevance in regions and communities.
- Materially reducing red tape.
- Realizing significant cost savings.

Two types of savings will be delivered through the Service Canada initiative. First, operational savings of $1.5 billion will be realized from the beneficial impacts of technology-related investments, such as automating extensive paper processing and improving the efficiency of call centres. Second, a further $1.5 billion in program savings will result from reducing overpayments in the EI/CPP programs. However, due to required operational investments—to consolidate offices with other federal departments and other levels of government under the Service Canada "brand," and technological changes to support citizen-centred services and secure delivery channels—net savings will total $2.5 billion over the five years (Table 5).

**Table 5**
*Savings—Service Canada Proposal*

| | 2005–06 | 2006–07 | 2007–08 | 2008–09 | 2009–10 | Total |
|---|---|---|---|---|---|---|
| | | | (millions of dollars) | | | |
| Operating | 165 | 215 | 390 | 365 | 365 | 1,500 |
| Program | 100 | 205 | 415 | 415 | 415 | 1,550 |
| **Total savings** | 265 | 420 | 805 | 780 | 780 | 3,050 |
| Investments, other than secure channel | 65 | 65 | 60 | 30 | 30 | 250 |
| Secure channel | – | – | 80 | 85 | 85 | 250 |
| **Net savings** | 200 | 355 | 665 | 665 | 665 | 2,550 |

## Departmental Savings

The ERC reviewed departmental programs to identify three sources of savings: reductions in the cost of delivering programs (program efficiencies); reductions in the overhead cost of running the department (administrative efficiencies); and the elimination or scaling back of programs that have become inefficient or less relevant.

Departments were tasked to undertake a review of their spending, and as a point of reference, provide proposals to the Expenditure Review Committee on potential expenditure reductions of at least 5 per cent on their non-statutory, direct program spending base, covering operations and transfer payments. In aggregate, this spending base was estimated to total some $42 billion.

However, certain types of spending were excluded from the overall base to ensure that the proposed savings were realistic and realizable. The focus was on the discretionary portion of departments' and agencies' appropriations voted by Parliament. The exemptions included:

- Statutory spending that requires legislative change, because these expenditures are largely non-discretionary, and include employee benefit plans (superannuation, CPP/QPP contributions) and statutory personnel (such as federal judges).
- Separately controlled operating expenditures, which are also largely non-discretionary. An example is the Treasury Board Secretariat's costs for Public Service insurance (health care, disability insurance, dental plan, etc.).
- Major capital expenditures.
- Some grants and contributions were also considered non-discretionary and exempted—mostly those that go to other orders of government, or for First Nations.

## Program Efficiency Savings: Examples

The **Atlantic Canada Opportunities Agency** (ACOA) has established innovation funds for each individual region. This naturally leads to the outcome that worthwhile projects in one area may go unfunded while ones that may be less worthy in other areas are funded. ACOA has decided to pool these funds and support the very best proposals. This provides an opportunity to share ideas, improves the quality of the projects and reduces costs.

The **Canada Revenue Agency** (CRA) does manual data entry for processing and reassessment of personal and business tax forms. This is costly, time-consuming and prone to errors. The CRA will install a new system of coding for electronically prepared tax returns to improve service to Canadians, reduce errors and cut down on costs.

The **Department of Fisheries and Oceans** (DFO) uses armed fisheries officers to enforce fish habitats. This is costly, often unnecessary, and viewed as excessive in some situations. The DFO is modernizing its approach, including greater reliance on education programs and significantly reducing low-risk referrals. This will achieve program objectives at reduced costs, particularly in the Prairie provinces.

## Administrative Efficiency Savings: Examples

**Natural Resources Canada** will cut costs by eliminating overlap and duplication through consolidation of its corporate services involved in information management and technology, finance, communications, administrative support and human resources.

The **Canadian Food Inspection Agency** will reduce its operating costs by accelerating the use of "electronic travel" (teleconferencing), modernizing its pay services, and changing how it manages the use of its vehicles.

### Program Reduction Savings: Examples

**Agriculture and Agri-Food Canada** provides financial support for the promotion of Canadian products for export. It does so not only by supporting the sector associations, but also by providing financial assistance directly to large multinational companies. This is duplication of financial assistance. In the future, support will only be provided through the sector associations.

The **Canadian International Development Agency** (CIDA) provides assistance to many countries. However, some of these nations have made significant progress, to the point where they do not need further support. CIDA is proposing to reduce its assistance in such cases. In other countries, due to a variety of factors, the effectiveness of Canadian assistance may be limited, despite the agency's best efforts. In such circumstances, it is better to channel assistance to countries with the most need, and where Canadian support can have the greatest impact. This is what CIDA is proposing to do.

The departmental proposals—having been approved for consideration by their Ministers—then went to a detailed proposal-by-proposal review by the Expenditure Review Committee members. After seeking amendments or additions to some of the proposals, the Committee put together a final package of departmental initiatives. This means that the ERC package does not represent pro-forma across-the-board cuts, an outcome the Government had ruled out from the start.

In making its decisions, the Committee applied a number of "lenses"—regional and gender impacts in particular. As well, the Committee took care to assure itself that the package as a whole did not have negative effects in important areas of public policy (science, environment and official languages, for example).

The final departmental savings package totals nearly $4 billion over five years, with the vast majority resulting from improved program and administrative efficiencies. Actual program reductions or elimination will provide savings of $104 million in the first year, rising to $275 million by year 5—for a total of about $1 billion. A summary list of savings is contained in the concluding annex.

## Reinvesting ERC Savings

Expenditure review is not a one-time exercise, but the beginning of a new management culture in the Government of Canada. The ERC savings will be invested in the highest priorities of Canadians.

About $2.3 billion of the total savings will be achieved through improved efficiency in the EI program, and a further $150 million in the CPP. The Government is committed to maintaining EI premiums equal to program costs. Therefore, savings related to the administration of the EI program will be used to either reduce premiums or enhance benefits. Savings related to the CPP program will contribute to ensuring the ongoing soundness of the public pension system.

The remaining savings, about $8.5 billion, will be reallocated to fund federal programs in new priority areas such as national defence and security, the environment, support for Aboriginal Canadians, and maintaining the integrity of core government operations.

**Table 6**
*Sources and Uses of the Expenditure Review*

| Total ERC savings | | Examples of priorities funded by ERC savings |
|---|---|---|
| | (billions of dollars) | |
| Service delivery | 3.1 | Defence |
| Procurement | 2.6 | National security |
| Property management | 1.0 | Environment |
| Departmental initiatives | 3.9 | Aboriginal Canadians |
| Employee benefit savings | 0.3 | Research and development |
| Total | 10.9 | Program integrity[1] |
| | | Reduce EI premiums/ increase benefits |
| | | Improve CPP account balance |

[1] Investments needed to address departmental service levels in key areas of federal responsibility and to maintain capital property.

## Impact on Federal Employment

Expenditure review is about reallocation. This means finding savings—by doing things better and reducing spending on old programs—so that these savings can be reinvested in new federal programs and priorities that Canadians want. This implies that the overall size of government remains stable, and that successful expenditure review should not lead to any significant loss in total federal employment.

This does not mean that jobs will not be affected. To the extent that there is a mismatch between the skill requirements for old and new programs, there are likely to be some impacts.

In preparing its proposed savings package, the ERC undertook an extensive analysis of the consequences for federal employment, including from regional perspectives. Key points of this analysis include:

- Taking into account the attrition rates, opportunities for retraining, and replacing term workers with full-time employees declared surplus, the net jobs impact of the ERC package over five years is estimated to be about 1 per cent of the current level of employment. Employees losing their jobs will be entitled to assistance and financial support under existing workforce adjustment programs.
- The regional impact of the ERC savings is equitably balanced across all regions of Canada. This was not by accident, as one of the tests used by the Committee in designing the package was to ensure that no region would be unduly affected.

To put the employment impact of expenditure review in perspective—taking into account reinvestment of ERC savings—it is noteworthy that, as a result of the Program Review of the mid-1990s, federal public service employment fell from a peak of 288,409 in 1993–94, to 239,093 by 1998–99—a drop of almost 50,000. Furthermore, over the last five years, the number of federal employees has increased by a similar amount.

## Conclusion

The expenditure review package is a vital element in Budget 2005, delivering on the Government's commitment to provide more responsible, accountable and transparent stewardship of taxpayers' dollars. This is hard evidence that not only has the Government been listening to Canadians, but that it remains willing to take the concrete action and innovative steps needed to deliver good public policy and good financial management.

As this budget sets out, the ERC savings will be benefiting Canadians this year and in the years ahead—by helping fund new investments in protecting our environment; in Aboriginal well-being; in renewing our defence capability; in greater support for research and development; and in international assistance. It is an ambitious list, but one made achievable by the hard work and real results that expenditure review has put in motion.

The Prime Minister has indicated that the review of federal spending will continue.

More detailed information on savings measures by individual federal departments is available on the Expenditure Review Committee Web page at www.expenditurereview-examendesdepenses.gc.ca. A link to this page is also available through the Department of Finance Canada Budget 2005 Web page at www.fin.gc.ca/budtoce/2005/budliste.htm.

## Annex
*Departmental Savings Initiatives*

| Department | 2005–06 | 2006–07 | 2007–08 | 2008–09 | 2009–10 | Total |
|---|---|---|---|---|---|---|
| | | | (millions of dollars) | | | |
| Agriculture and Agri-Food Canada (AGR) | 25.0 | 30.0 | 35.0 | 45.0 | 45.0 | 180.0 |
| AGR—Canadian Food Inspection Agency | 3.6 | 5.1 | 20.1 | 20.1 | 20.1 | 69.0 |
| AGR—Canadian Grain Commission | 0.6 | 0.7 | 0.9 | 0.9 | 0.9 | 3.9 |
| Atlantic Canada Opportunities Agency | 7.1 | 14.0 | 21.0 | 21.0 | 21.0 | 84.1 |
| Canada Revenue Agency | 35.1 | 73.8 | 110.0 | 110.0 | 110.0 | 438.9 |
| Canadian Heritage | 2.0 | 6.0 | 10.0 | 10.0 | 10.0 | 38.0 |
| Canadian International Development Agency | 40.9 | 74.0 | 114.4 | 114.4 | 114.4 | 458.1 |
| Citizenship and Immigration Canada | 1.2 | 8.0 | 17.5 | 18.8 | 20.0 | 65.5 |
| Canada Economic Development for Quebec Regions | 4.4 | 8.4 | 11.3 | 11.3 | 11.3 | 46.9 |
| Environment Canada (EC) | 4.3 | 10.2 | 17.1 | 17.1 | 17.1 | 65.6 |
| EC—Canadian Environmental Assessment Agency | 0.05 | 0.1 | 0.15 | 0.15 | 0.15 | 0.6 |
| Department of Finance Canada | 1.8 | 3.5 | 5.3 | 5.3 | 5.3 | 21.2 |
| Fisheries and Oceans Canada | 18.7 | 20.8 | 34.7 | 39.2 | 40.7 | 154.0 |
| DFAIT (Foreign Affairs) | 4.0 | 13.0 | 32.0 | 32.0 | 32.0 | 113.0 |
| Governor General of Canada | 0.3 | 0.6 | 0.8 | 0.8 | 0.8 | 3.3 |
| Health Canada | 20.0 | 43.9 | 68.4 | 68.4 | 68.4 | 269.1 |
| Human Resources and Skills Development Canada | 12.0 | 20.0 | 20.0 | 20.0 | 20.0 | 92.0 |
| Indian and Northern Affairs Canada | 20.0 | 45.0 | 65.0 | 65.0 | 65.0 | 260.0 |

**Annex** *(cont'd)*
*Departmental Savings Initiatives*

| Department | 2005–06 | 2006–07 | 2007–08 | 2008–09 | 2009–10 | Total |
|---|---|---|---|---|---|---|
| | | | (millions of dollars) | | | |
| Industry Canada | 14.2 | 32.3 | 51.2 | 51.2 | 51.2 | 200.1 |
| DFAIT (International Trade) | 1.6 | 2.8 | 4.5 | 4.5 | 4.5 | 17.8 |
| Department of Justice Canada | 12.2 | 14.2 | 16.2 | 16.2 | 16.2 | 75.2 |
| National Defence | 34.0 | 88.0 | 143.0 | 172.0 | 203.0 | 640.0 |
| Natural Resources Canada | 26.5 | 28.9 | 30.6 | 25.3 | 25.2 | 136.6 |
| Privy Council Office (PCO) | 2.1 | 4.2 | 6.3 | 6.3 | 6.3 | 25.2 |
| PCO—Indian Residential Schools Resolution Canada | 1.6 | 3.1 | 4.7 | 4.7 | 4.7 | 18.8 |
| Public Safety and Emergency Preparedness Canada (PSEP)—Royal Canadian Mounted Police | 1.0 | 3.4 | 5.1 | 5.1 | 5.1 | 19.9 |
| PSEP—Canada Border Services Agency | 1.7 | 3.0 | 3.4 | 3.4 | 3.4 | 14.9 |
| Public Works and Government Services Canada | 8.0 | 16.0 | 23.0 | 23.0 | 23.0 | 93.0 |
| Social Development Canada | 11.2 | 13.9 | 17.5 | 17.5 | 17.5 | 77.6 |
| Transport Canada | 5.4 | 11.4 | 17.2 | 17.2 | 17.2 | 68.5 |
| Treasury Board of Canada Secretariat (TB) | 1.4 | 2.3 | 4.2 | 4.2 | 4.2 | 16.3 |
| TB—Canada School of Public Service | 0.5 | 0.9 | 1.4 | 1.4 | 1.4 | 5.6 |
| TB—Public Service Human Resources Management Agency of Canada | 8.5 | 16.9 | 17.2 | 17.2 | 17.2 | 77.0 |
| Veterans Affairs Canada | 3.2 | 6.4 | 9.3 | 9.3 | 9.3 | 37.5 |
| Western Economic Diversification Canada | 3.1 | 6.0 | 8.8 | 8.8 | 8.8 | 35.5 |
| **Total** | 337 | 631 | 947 | 987 | 1,021 | 3,923 |

Delivering on Commitments

# Budget 2005

## Strengthening and Modernizing Public Sector Management

February 23, 2005

Canada

Delivering on Commitments

# Budget 2005

## Strengthening and Modernizing Public Sector Management

Department of Finance Canada
Ministère des Finances Canada

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## Introduction

Our federal institutions play an extremely important role in our quality of life. They support the way we govern ourselves as a federation, administer our laws and justice system, develop and deliver our national social programs and services, regulate the economy and promote fair trade, and represent and protect our interests and values in the world.

Canadians rightly expect a lot of their public sector. They expect the Government to pursue policies and programs that take into account and are responsive to public priorities. They expect the Government to operate in an open, transparent and accountable manner. They want to know that government programs and services are well managed. Above all, they want assurances that they are receiving good value for their tax dollars.

The Government has listened and acted:

- The Office of the Comptroller General has been re-established to strengthen financial management and internal audit;
- Information on travel, hospitality, contracting and reclassification of positions is now posted on the Internet to increase transparency;
- The review of Crown corporation governance lays out an action plan to strengthen governance and accountability;
- The *Public Servants Disclosure Protection Bill* will strengthen the regime for investigating wrongdoing; and
- Improvements to the *Estimates* documents make it easier for Parliament to hold the Government to account.

Building on this, the Government will modernize and reform management practices across the federal public sector as a whole. This means changing the way the Government works. Initiatives are focused in four areas:

- Improved service quality and efficiency;
- Reinforced capacity of the public service;
- Strengthened governance and accountability;
- Sound stewardship of public resources.

Our goal is to offer Canadians the best public service possible. We must "work smart," pay attention to the needs of Canadians, and react more quickly to change. We will support public servants as they deliver services to Canadians. Coordinated efforts in all of these areas will serve to strengthen trust, accountability, and the value-for-money that Canadians receive from their government. They will ensure that the Government continues to strengthen Canada's competitive advantage in the world and position the country for the future.

Reg Alcock
President of the Treasury Board and
Minister responsible for the Canadian Wheat Board

# What We're Doing, And Why

## Strengthening and Modernizing Public Sector Management

The Government of Canada is transforming itself. It is changing the way it works, the way it accounts to Canadians and the way it serves them. The sweeping changes that have been put in place are redefining the Government's relationship with Canadians. They are forging a culture of modern management rooted in transparency, quality and efficiency.

The actions being taken by the Government are guided by a code of democratic, ethical, professional and people values that are at the very core of our national community. They are values of respect, fairness and openness. They reflect what Canadians believe to be central to our national character. These same values are what Canadians deserve and expect from their government. This document sets out an overview of the Government's actions. It represents an ongoing and unshakable commitment to achieve the objectives of modern government to serve all Canadians better. It is about delivering results to Canadians through better service, better use of technology and excellence in pursuit of the public interest.

The key elements in this transformation to a more modern, efficient, transparent and effective government are described and explained in this document. While each is important in its own right, they are mutually supportive and collectively are essential in achieving the objective of transforming government.

They include:

- Measures to improve service delivery and accessibility to the public;
- Initiatives to modernize and improve the public service;
- Action to strengthen transparency and accountability; and
- Steps to strengthen financial management.

Much has been already accomplished. More will be done in the months ahead. That is the Government's commitment to Canadians.

## Improving Service Quality and Efficiency

One of the most important tasks of government is to serve citizens well. Thus, a core challenge of the public service is to be responsive to the needs of people and deliver the services they require efficiently, effectively and professionally. But too often public servants do not have the proper tools or systems in place to meet those crucial objectives. They are hobbled by outdated structures and systems that fail them and the citizens they serve. That is why modernizing government, which embodies a commitment to improved, integrated and efficient service for Canadians, is at the core of the process to transform government.

The Government of Canada is the largest organization in the country. It delivers over 1,600 programs and services that improve the quality of life of Canadians and help bring the diverse parts of the country together. It spends over $140 billion on programs and services including tens of billions on its operations.

Modernizing government means acting as one government rather than 116 separate departments and agencies. It means simplifying business processes, re-using information and systems, and capitalizing on technology to better manage money and operations. It means using common approaches and shared internal services wherever possible. In this way, decision-making is improved, costs reduced and resources saved. Greater operational efficiency means more available funding for Canadians' highest priorities.

Steps have been taken to improve service delivery. Government information and services are much easier to find, thanks to client-focused portals for Web sites and toll-free telephone services. The main Government of Canada entry point on the Internet, the Canada Site at www.canada.gc.ca, provides links to services arrayed by client, topic and department. The information officers at 1 800 O-Canada provide up-to-date information on all federal programs and services. The Canada Site receives 1.2 million visits each month and 1 800 O-Canada handles over 100,000 calls per month. Both services are important sources of information, especially during times of crisis. For example, after the tsunami on December 26th, information to assist Canadians abroad and friends and family was posted. Visits to the site numbered approximately 14,000 by January 6th. As well, more than 5,000 phones calls were answered during the same period.

Significant strides have been made by departments and agencies to make their services available on-line, including tax filing and applying for employment insurance, and to increase citizen satisfaction through faster service. Canada Revenue Agency's new My Account—offering secure personalized access to tax information— had over 1.2 million visits in 2004.

Canadians will benefit from enhanced safety, streamlined procedures and reduced administrative burden with the introduction of the Smart Regulations Initiative. For example, under the Therapeutics Access Strategy, progress has been made to improve the timeliness of the drug review process while maintaining high safety standards. The Paper Burden Reduction Initiative will identify concrete initiatives that reduce regulatory burden on business and will evaluate government's performance in reducing burden over time. A new management model for environmental assessments of major projects affecting fish habitat streamlines the referral process, targets resources to priorities and clarifies compliance requirements.

Over the Internet, businesses can:

- incorporate and register;
- file corporate income tax returns and T4 returns;
- file record of employment data; and
- submit trademark and copyright applications.

These on-line services provide both clients and government with significant time savings.

In May 2004, the Government signed a joint service delivery agreement with the Government of Ontario. Collaborative initiatives will be explored in areas such as improving electronic service delivery, coordinating emergency management systems, improving immigration services and an integrated labour market system. The Government will be seeking similar arrangements with other provinces and territories in order to move to convenient multi-jurisdictional service delivery.

The Government's ambitious agenda is changing the way it works in delivering services to Canadians and other clients and managing its own internal administrative operations.

## Service Canada: Providing One-stop Access to Canadians

Too often, operational or organizational requirements have dictated the way government delivers services to Canadians. As a result, citizens find it difficult to navigate the maze of programs and departments to find the services they need. Citizens sometimes feel they are being bounced from department to department rather than being able to go to one place to have most of their needs met. Better coordination in the delivery of services will help reduce costs and provide more convenient service.

The Government is working hard to improve services to Canadians and to reduce the cost of delivering these services. Service Canada will provide one-stop service to Canadians by phone, on the Internet, and in person for social benefits and other programs.

Over time, Service Canada will reach over 30 million Canadians, serve 1.3 million employers and provide one-stop service for most government services—including assistance in finding a job, delivering income support, helping education and skills development, and many more services. It will increase the service Canadians receive at the first point of contact and improve the efficiency of service delivery across government.

## Secure Technology Infrastructure

Through its Government On-Line initiative, the federal government now has a world-class secure technology infrastructure, the Secure Channel, to support on-line service delivery. This common infrastructure assures the privacy and security of information and transactions and provides information technology services that support all departments and agencies.

The Secure Channel is fully operational, with increasing numbers of departments and agencies moving to take advantage of its services. This infrastructure will provide a strong foundation for the transformation of internal services and external service delivery. However, further investment will be needed to support its operation and expand its capabilities to meet the needs of Service Canada and other significant transformational projects.

Modernizing core government operations and taking advantage of the secure common infrastructure increases efficiency through improved productivity and simplified processes. Greater consistency in processes across government enhances quality. Aggregating the business activities in key areas across departments and agencies lightens the administrative burden on public servants and reduces costs.

The citizen-focused approach to rethinking service delivery on all channels and investing in the necessary secure technology infrastructure is one of the reasons that Canada has been ranked as the leader in e-government for four years running in Accenture's annual survey.

## Shared Corporate, Administrative and Information Technology Services

A large number of public servants are engaged in administrative, human resource, financial, material or information technology activities within government. They use many different systems for this essential work: for example, there are seven different financial and material systems and 14 different human resource systems. In many cases, departments and agencies have further customized these systems. Introducing more shared systems, simplifying and standardizing processes for these administrative activities, moving routine activities to self-service on the Internet, and shared service delivery will result in efficiencies.

The Government is implementing a strategy to improve the delivery of these internal administrative services and increase operational efficiency. Building on the areas of greatest opportunity, the Government will introduce a shared service approach to information technology, human resource management, and financial services starting with a critical mass of departments and agencies. The required investments will be made to ensure that this initiative is well planned, well managed and coordinated across the government.

Introducing a whole-of-government approach to the delivery and management of administrative services will improve the internal efficiency of operations and deliver better value-for-money to Canadians. Adopting shared services and systems also means that consistent information is available for decision-making within departments and for the government as a whole.

## Reinforcing the Capacity of the Public Service

Ultimately, good government is about people. It is about recognizing the complexity of government expressed in challenges that individuals face and the skills they need to fulfill the roles they must play. Few organizations have gone through more change in recent years than the public service. To face the diverse and changing demands of modern society, the public service has to be more nimble, more open and more reflective of the population it serves. A modern public service is filled with people who reflect the quality and values of the nation itself.

### Public Service Modernization

The *Public Service Modernization Act* recognizes that reality. It recognizes that fostering excellence in people management and leadership across the public service is one of the most important priorities for the Government. It couples changing the way government operates with changing the way the public service must work. It takes a more collaborative approach to labour-management relations. It improves the staffing process. Human resource planning and accountability systems are being strengthened. It introduces a more cost-effective human resource service delivery model. Finally, it provides an integrated approach to learning for employees at all levels through the *Canada School of Public Service*.

To go through such a transition, departments and agencies across government will require support and funding to introduce new functions, equip people with new tools, enhance knowledge and skills, modify systems and, prepare people for cultural changes. Public servants will be supported through this transition.

### Building Capacity Through Core Learning

Modern public service management requires a skilled, well-trained, and professional workforce. Public servants have consistently shown themselves to be dedicated to serving the public interest to the best of their abilities. Public servants will be working in new ways. They will have the tools they need to do the job.

Learning for all employees, including preparing them for new and increased responsibilities, remains a priority. Management skills will be upgraded through a modern curriculum emphasizing managerial accountabilities. This will include orientation for new employees, retraining of the current workforce, and strengthening core competencies—including areas such as financial management, human resource (HR) management and values and ethics. The Government will invest in the sustained professional development of specialists—including working with accrediting bodies on programs for procurement officers, HR professionals, financial managers and internal auditors.

With access to training, public servants are better equipped to manage the challenges ahead. They are able to feel more confident and supported in managing the transition. And Canadians can be assured they are being served by a competent, professional public service.

## Building Capacity Through More Effective and Integrated HR Planning and Strengthened Accountability Systems

Public service organizations need to be supported by effective integrated HR and business planning processes, as well as sound accountability systems covering all aspects of HR management—from staffing the right people at the right time and at the right place, to ensuring that employment equity, official languages and workplace well-being requirements are met. This will require new investments to support departments and agencies across government.

In addition, and in collaboration with the Public Service Commission, targeted efforts and new financial support will be required to sustain a more representative and accessible public service—including improved training and testing capacities for official languages and moving to a national area of selection. The Government will be able to offer positions and recruit more effectively across the country and better serve Canadians.

In a changing and increasingly competitive world, we need a public service that is not only excellent but also connected to all parts of Canadian society. Therefore, a new exchange program will be introduced to allow interchange between senior executives in the public service and those in other sectors of our society. The Prime Minister's Fellows Program will build mutual understanding and will allow the sharing of talent and ideas.

## Strengthening Governance and Accountability

Good governance and accountability are essential to sound public management. In an organization as large and complex as the Government of Canada, ongoing efforts are necessary to maintain and strengthen governance. Moreover, Parliament and Canadians must know what was achieved through public spending.

Much has been done to strengthen accountability. The *Management Accountability Framework* sets out a coherent and comprehensive accountability regime within government and enables departments and agencies to strengthen their management capacity. Information is being "proactively" disclosed to Canadians: travel and hospitality expenses for ministers and senior officials are now posted on the Internet; and contracts over $10,000 are reported publicly, as are reclassifications of public service positions. The new *Public Servants Disclosure Protection Bill*, currently before Parliament, strengthens the regime for disclosing and investigating wrongdoing in the public sector, protecting those who disclose while ensuring a fair process for those against whom allegations are made. The new *Values and Ethics Code for the Public Service* is being widely promoted as a strong foundation to public service.

### Strengthened Governance

More will be done. The Government recently outlined a number of measures to strengthen the governance and accountability of Crown corporations. These are an important part of the public sector with combined assets of more than $78 billion and 73,000 employees. Recent measures, announced following the most comprehensive review of Crown corporation governance in 20 years, include:

- clarifying the relationship between ministers and Crown corporations;
- strengthening their accountability regimes;
- making the appointments process more transparent;
- strengthening their audit regimes; and
- making the activities and operations of Crown corporations more transparent.

These reforms will bring the governance of Crown corporations more in line with reforms in the private sector. Parliament will be better able to hold the Government to account on Crown corporation activities and ensure that the Crown corporations are meeting the needs and expectations of Canadians.

## Improving Reporting to Parliament

It is Parliament's job to oversee spending and hold the Government to account for results. Parliamentarians rely heavily on reports from the Government to do this. Steps have been taken to improve the presentation of the *Estimates* documents and to provide a global view of performance through the annual *Canada's Performance* report. However, despite progress, reporting to Parliament remains inadequate. Much of the information that Parliament receives about how funds are spent is difficult to use. Trends are difficult to discern. An overall picture of performance is hard to gauge. There are literally hundreds of reports tabled in Parliament, but no easy way of assessing how the Government is doing overall.

As part of its efforts to enhance accountability and address the democratic deficit, the Government will consult with parliamentarians in the coming months to develop a blueprint for improved parliamentary reporting. The blueprint will include the *Estimates* as well as many other reports. Options to deliver on-line access to performance information will be presented. Through these consultations, the Government will determine how best to provide parliamentarians with more timely and accessible information on program spending and results.

These measures will enhance transparency. Canadians will be able to see how their government is performing and better able to participate in public discussions on government directions, programs and operations.

## Sound Stewardship of Public Resources

Sound stewardship of resources is central to making government work better. This means ensuring that spending remains under control and is closely aligned with the priorities of Canadians, and that every dollar is invested with care to deliver results.

In December 2003, the Government began a review of spending to shift resources from lower to higher priorities. Last year, $1 billion annually was freed up from less efficient or lower priority activities and reallocated to promote economic growth and social progress. Canada has shown leadership in adopting full accrual accounting in the 2003 Public Accounts. The Treasury Board Secretariat was re-mandated to focus on providing rigorous oversight of government expenditures, and the Office of the Comptroller General of Canada was re-established within the Secretariat to provide leadership across Government in financial management and systems, accounting policy and internal audit.

Building on these steps, more rigour and discipline is being brought to ongoing management of overall program spending. Better information will be available on the performance of programs and services. Financial management and audit capacity will be strengthened.

## Improving Expenditure Management

A strong expenditure management system helps maintain balanced budgets, aligns resources with government priorities, and increases the efficiency of program operations.

The Expenditure Review Committee of Cabinet has made an important contribution to all three of these objectives. Details of its work are found in the Budget 2005 booklet on expenditure review. Significant work is now required to implement the government-wide service changes and the department-specific initiatives.

While the focus is shifting to implementation, the Government will continue the review of federal spending. This will entail strengthening oversight of direct program spending, identifying new opportunities for further savings, allocating funds to departments for new policy initiatives following the budget, and re-allocating resources as required to maintain fiscal integrity.

Work continues on improving the system of gathering and analyzing information on spending and performance across government. This includes collecting financial and non-financial information to better link spending on programs to the Government's strategic outcomes.

This will result in more effective expenditure management. Moreover, the Government will have ready access to information about programs, which will allow it to manage better and report more clearly to Parliament and Canadians on what was achieved with the money spent.

## Strengthening Financial Management and Audit

The Office of the Comptroller General is working with departments and agencies to strengthen financial management and internal audit by:

- increasing the number of professionally-accredited comptrollers;
- strengthening the capacity and improving the training of financial management and internal audit professionals;
- implementing strategies and processes for reviewing new expenditures; and
- improving financial systems to track spending and financial decision-making.

A strategic approach to financial stewardship focusing on areas of risk will increase trust in government operations. Improved financial and audit capacity will result in better planning and decision-making in departments and across government. Appropriate financial controls, monitoring, and enforcement mechanisms will reinforce the stewardship of public funds.

## Better Capital Asset Management

The Government of Canada manages $47.8 billion in capital assets across the country and around the world. Each year, $7 billion is invested to maintain these buildings, ships, aircraft, vehicles and equipment.

Sound management of capital assets requires long-term planning that addresses all aspects of capital management—including acquiring new or more suitable assets, maintaining and recapitalizing current assets, and appropriately disposing of those assets that no longer meet program requirements. A stable, multi-year funding base is essential for departments and agencies to be able to plan effectively. The Government will implement a more rigorous approach to capital planning on a pilot basis with a number of departments. Parliament will be asked to consider multi-year appropriations of capital funds for departments with a comprehensive capital plan and a good track record of managing their capital assets.

Proper asset management also includes reducing the health and ecological risks associated with contaminated sites. As announced last year, up to $4 billion will be invested over 10 years to clean up contaminated sites on federal lands as well as sites for which the Government has partial responsibility across the country. Further steps will also be taken to increase the "greening" of government operations.

## Conclusion: Strengthening Public Sector Management

Through these efforts and others, the Government is building a modern public service:

- Innovative use of technology will increase service quality and reduce costs;
- Modernized human resource management will better support public servants in their efforts to deliver the best results for Canadians;
- Strengthened governance and accountability will help Parliament hold the government to account and build confidence in federal institutions; and
- Sound stewardship of resources will maintain fiscal responsibility, align resources with priorities and increase operational efficiencies.

Delivering on Commitments

# Budget 2005

## A New Deal for Canada's Communities

**February 23, 2005**

Canada

## Working Together for Strong Communities

Budget 2005 delivers long-term, stable and predictable funding as part of the Government of Canada's commitment to a New Deal for Cities and Communities. Under the New Deal, federal, provincial, territorial and municipal governments will work together with other stakeholders to develop long-term strategies for improving our communities.

The Government of Canada is doing its part. In combination with full rebate of the goods and services tax introduced last year, the measures announced in Budget 2005 will provide Canadian communities with more than $9 billion in funding over the next five years.

## Budget 2005—Delivering on Commitments

Budget 2005 delivers on the Government of Canada's New Deal for Cities and Communities commitment by:

1. Providing municipalities with a share of gas tax revenues
2. Renewing existing infrastructure programs as necessary
3. Increasing contributions to the Green Municipal Funds

## 1 Gas Tax Revenue Sharing

Over the next five years, the Government of Canada will provide $5 billion to municipalities to support environmentally sustainable infrastructure projects such as public transit, water and wastewater treatment, community energy systems and the handling of solid waste.

Effective in 2005–06, Canada's cities and communities will receive a share of federal gas tax revenues worth $600 million. This funding will increase until it reaches $2 billion annually, equivalent to 5 cents per litre of gas tax revenues, by 2009–10. Specifically:

- 2005–06: $600 million
- 2006–07: $600 million
- 2007–08: $800 million
- 2008–09: $1 billion
- 2009–10: $2 billion

Funding will be distributed to provinces, territories and First Nations on a per capita basis (see table below) once bilateral agreements are signed. These agreements will ensure that funds are received by municipalities promptly on a fair and transparent basis.

| Province/Territory/ First Nations | Total Over Five Years |
|---|---|
| | ($M) |
| Newfoundland and Labrador | 82.3 |
| Prince Edward Island | 37.5 |
| Nova Scotia | 145.2 |
| New Brunswick | 116.1 |
| Quebec | 1,151.0 |
| Ontario | 1,865.5 |
| Manitoba | 167.3 |
| Saskatchewan | 147.7 |
| Alberta | 476.9 |
| British Columbia | 635.6 |
| Yukon | 37.5 |
| Northwest Territories | 37.5 |
| Nunavut | 37.5 |
| First Nations | 62.5 |
| Total | $5 billion |

## 2 Renewing Existing Infrastructure Programs

In addition to gas tax revenue sharing, Budget 2005 commits to renewing the Canada Strategic Infrastructure Fund, the Municipal Rural Infrastructure Fund and the Border Infrastructure Fund. Further details on the extension of these programs will be announced in future budgets.

## 3 Green Municipal Funds

Budget 2005 more than doubles funding for the Green Municipal Funds with new funding of $300 million. These funds, which are administered by the Federation of Canadian Municipalities, provide grants, low-interest loans and innovative financing to increase investment in infrastructure projects that deliver cleaner air, water and soil, and climate protection.

### Examples of Federal Contributions to Infrastructure Projects

- Halifax Harbour cleanup: $60 million
- Upgrade of Montréal's metro system: $103 million
- Modernizing and expanding Toronto's transit system: $350 million
- Twinning Trans-Canada Highway routes in Saskatchewan: $77 million
- Improving Canada–U.S. border crossings in British Columbia: $90 million
- Corridors for Canada highway infrastructure development in the Northwest Territories: $65 million

## A Voice at the National Table

The Government is consistently seeking new ways to involve Canada's municipal governments in the decision-making process on national issues that directly affect their interests.

The proposed new Department of Infrastructure and Communities will be the Government of Canada's primary contact for municipal issues. In addition, the Minister of Finance has formally met with municipal decision-makers as part of his pre-budget consultations and is committed to do so again for future budgets.

The Government will continue to seek further opportunities for dialogue with municipal leaders, while respecting provincial and territorial jurisdiction.

## Building on Previous Commitments

The first steps in delivering on the New Deal came in Budget 2004. At that time, the Government committed to:

- Provide municipalities with a 100-per-cent rebate of the goods and services tax and the federal portion of the harmonized sales tax. This will provide municipalities with $7 billion in funding over 10 years.
- Accelerate spending under the Municipal Rural Infrastructure Fund so that the $1 billion in funding is spent over 5 years, rather than 10.

The Government of Canada has provided more than $12 billion in infrastructure program funding since the mid-1990s, which is expected to leverage more than $30 billion in total infrastructure investment.

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Delivering on Commitments

# Budget 2005

# Achieving a Productive and Sustainable Economy

**February 23, 2005**

Canada

## Canada's Remarkable Economic and Fiscal Success

Since eliminating the deficit in 1997, the Government has taken a balanced approach to reducing debt, reducing taxes, and investing in social and economic priorities.

This balanced approach is working. Canada stands out among the Group of Seven (G-7) major industrialized countries with:

- The best job creation record—more than 3 million new jobs.
- The fastest-growing living standards.
- Low and stable inflation and interest rates.

With the Government of Canada's seven consecutive surpluses, the federal debt has been reduced by more than $61 billion. Canada has moved from having the second worst debt-to-GDP ratio in the G-7 to having the best. The Government's strong fiscal position and lower debt burden have meant more resources for building a better country rather than paying creditors.

## Budget 2005—Delivering on Commitments

The Government of Canada has presented an ambitious agenda and clear commitments to Canadians. Budget 2005 delivers on the Government of Canada's commitments in the following areas:

1 Investing in people
2 Investing in ideas and enabling technologies
3 Investing in regions and sectors

4 Maintaining a fair and competitive tax system

5 Making markets more efficient and effective

No single budget can accomplish every goal at once. That is why Budget 2005 measures have been designed to build on actions taken in previous budgets, while setting the stage for further improvements as the Government can afford them.

## 1 Investing in People

As baby boomers prepare to retire in large numbers during the coming years, it is clear that the number of working Canadians will decline in proportion to the population as a whole. This means that, to secure future growth in living standards, Canada must have a highly skilled and adaptable labour force that can respond to and drive the economy of tomorrow.

This challenge demands new approaches to strengthening opportunities for learning and skills at all stages of life. Budget 2005 makes several key investments aimed at meeting this challenge:

- $5 billion over five years to build the framework for a new shared Early Learning and Child Care initiative in collaboration with the provinces and territories.
- $120 million over five years to improve the Special Education Program for First Nations children on reserve.
- $398 million over five years to make services more responsive to the needs of immigrants, and enhance settlement and integration programs to help newcomers to Canada become fully contributing members of the workforce more quickly.
- $125 million over the next three years to move forward on a Workplace Skills Strategy to help workers keep pace with changing requirements.
- $30 million over three years to enhance the capacity of the National Literacy Secretariat to foster awareness of literacy issues and to promote learning in the workplace.

## 2 Investing in Ideas and Enabling Technologies

Research is crucial to improving our environment, advancing our health care system and making Canadian firms more productive and competitive. That is why the Government of Canada will continue to do its part—along with universities and the private sector—to promote research and new technologies.

Budget 2005 provides $810 million in strategic investments in ideas and enabling technologies over the next five years. These include:

- $375 million over five years for the three federal granting councils—the Canadian Institutes of Health Research, the Natural Sciences and Engineering Research Council of Canada, and the Social Sciences and Humanities Research Council of Canada.

- Increasing funding to universities and research hospitals for the indirect costs of federally sponsored research, bringing the total to $260 million per year from $245 million starting in 2005–06.
- $125 million over five years for world-leading particle physics research at the Tri-University Meson Facility (TRIUMF) science facility in British Columbia.
- $30 million for the Canadian Academies of Science to provide independent expert assessments of the science underlying key issues.
- $165 million for Genome Canada in support of breakthrough genomics research.
- $20 million for Precarn, which specializes in advanced robotics and artificial intelligence.

These initiatives build on the $11 billion added by the Government of Canada in university-based research since 1998.

## 3 Investing in Regions and Sectors

The Government of Canada is committed to strengthening its support for regional and sectoral development to ensure that all of Canada's regions and economic sectors can contribute to—and benefit from—economic growth and rising living standards.

Budget 2005 delivers on this commitment through investments totalling $1.2 billion in regional development initiatives in all parts of Canada. This includes:

- $800 million for regional economic development agencies in Atlantic Canada, Western Canada, Quebec and Northern Ontario.
- $120 million for the Northern Strategy to help Canada's three territories promote economic development.
- $55 million over the next five years for Community Futures Organizations, which provide loans to small businesses in every province and territory of Canada.

Budget 2005 also increases funding to key sectors of Canada's economy, such as agriculture and energy.

## 4 Maintaining a Fair and Competitive Tax System

Budget 2005 will reduce taxes for all taxpayers—especially those with low and modest incomes. It will also maintain Canada's corporate tax advantage relative to the United States. Once the measures in Budget 2005 are fully in place:

- Taxpayers will no longer pay any federal tax on income up to $10,000 (see box below).
- Registered retirement savings plan and registered pension plan limits will increase to $22,000 to support savings and investment.
- The corporate surtax, originally introduced to help fight the federal deficit, will be eliminated.
- The general corporate income tax rate will be reduced to 19 per cent from 21 per cent.

### Increasing the Basic Personal Amount

Currently, individuals can earn up to about $8,000 without paying federal personal income tax. Income above that level is subject to federal tax.

By 2009, the amount that individuals can earn tax-free will increase to at least $10,000.

This measure will provide tax relief for all taxpayers—worth about $7.1 billion over the next five years.

Most of the benefit will go to those with low and modest incomes. For example, this measure will remove 860,000 low-income taxpayers from the tax rolls, including about 240,000 seniors.

Legislation to implement these measures will be introduced at the earliest opportunity.

## 5 Making Markets More Efficient and Effective

The Government of Canada is committed to creating a more favourable climate for business and investment—not only by reducing taxes but also through more efficient regulation.

Budget 2005 delivers on this commitment through various regulatory reforms and related initiatives that will help stimulate economic growth. These include:

- Eliminating the 30-per-cent foreign property limit on pension investments effective immediately.
- Launching a review of legislation governing Canada's financial institutions to improve consumer protection and promote greater efficiency.
- Increasing deposit insurance coverage to $100,000 from $60,000 to better protect consumers.
- Reducing overlap and duplication between federal agencies that regulate Canada's financial sector.

The Government of Canada will also work with the provinces and territories to improve securities regulation.

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Delivering on Commitments

# Budget 2005

## Moving Towards a Green Economy

February 23, 2005

Canada

## A Better Environment—A Stronger Economy

The Government of Canada believes that a healthy and sustainable environment is an integral part of economic growth. Since balancing the budget in 1997–98, the Government has allocated more than $10 billion to enhance the quality of our land, air and water by addressing climate change, cleaning up contaminated sites, developing and enforcing environmental protection laws, and investing in environmental technologies.

Budget 2005 builds on these substantial measures taken over the last few years to improve the environment and address climate change. It takes significant new steps forward on a number of different fronts.

## Budget 2005—Delivering on Commitments

Budget 2005 delivers on the Government's commitment to a green economy with a $5-billion package of measures over the next five years to support a sustainable environment by:

1. Addressing climate change by promoting reductions in greenhouse gas (GHG) emissions and encouraging the development of environmental technologies.
2. Building on existing tax measures to encourage Canadian businesses to invest more in efficient and renewable energy generation.
3. Investing in public infrastructure to encourage more efficient use of energy as well as the remediation of brownfield sites.
4. Protecting our natural environment, including the Great Lakes, oceans and national parks.

### 1 Addressing Climate Change

This budget makes significant investments aimed at reducing GHG emissions, and developing science and technology that will help build the framework for a comprehensive and sustainable response to the challenge of climate change.

Specifically, this budget provides:

- $1 billion over five years for the Clean Fund to encourage cost-effective projects and actions that reduce greenhouse gas emissions.
- $250 million to create a Partnership Fund for projects that are best achieved through cooperation between the federal government, and provinces and territories.
- $225 million over five years to quadruple the number of homes retrofitted under the EnerGuide for Houses Retrofit Incentive program (see box).
- $200 million over five years to help develop a Sustainable Energy Science and Technology Strategy.
- $200 million over five years to further stimulate the use of wind power through the Wind Power Production Incentive.

- $97 million over five years for a new Renewable Power Production Incentive to encourage the use of other renewable energy technologies such as small hydro, biomass and landfill gas.

These initiatives will allow individuals, industry and governments to play an active role in addressing climate change.

While helping curb Canada's GHG emissions, the initiatives will promote Canadian technologies and innovation while opening the door to new economic opportunities.

### The EnerGuide for Houses Program

The EnerGuide for Houses program is designed to help homeowners reduce their energy consumption. The program offers grants for people who improve the energy rating of their houses, based on a simple, 100-point scoring system called the EnerGuide.

So far, grants average $630 per home in addition to an average of 27 per cent savings on home energy bills every year.

On a $2,400-per-year energy bill, this translates into more than $600 in savings.

## 2 Environmental Tax Measures

The tax system has encouraged investment by businesses in efficient and renewable energy generation equipment through an accelerated 30 per cent capital cost allowance rate.

### Efficient Renewable Energy Generation Equipment

The capital cost allowance (CCA) system determines how much of the cost of a capital asset a business may deduct in a particular year.

In order to encourage the generation of more environmentally friendly forms of energy, the Government provides an accelerated capital cost allowance for certain equipment that produces energy efficiently or from renewable sources.

The list of eligible equipment includes, among others: cogeneration equipment, wind turbines, small hydroelectric facilities, and geothermal energy systems.

Budget 2005 enhances this support by:

- Increasing the CCA rate to 50 per cent from 30 per cent for environmentally friendly forms of energy.
- Extending this incentive to include district energy and biogas production systems.

Enhanced incentives in this area will contribute to reduced GHG emissions, better air quality and a more diverse energy supply.

The Government will consult on other opportunities to use the tax system to further environmental objectives.

## 3 Investing in Public Infrastructure

Budget 2005 targets a series of infrastructure-related investments to achieve better environmental outcomes through two complementary streams:

***Sustainable Environment***

- $300 million for the Green Municipal Funds, $150 million of which will be used to help communities clean up and redevelop brownfields, which are abandoned sites where environmental contamination exists.

***Sustainable Communities***

- The equivalent of $5 billion over five years out of federal gas tax revenues to municipalities for infrastructure projects like transit, water and community energy systems.

- The renewal of infrastructure programs such as the Canada Strategic Infrastructure Fund and the Municipal Rural Infrastructure Fund, which invest more than 50 per cent of funding toward sustainable infrastructure.

## 4 Protecting Our Natural Environment

Canadians are proud of the beauty and quality of their natural environment and want to protect this rich inheritance of land, water and biodiversity.

Budget 2005 delivers on this commitment to the environment by providing:

- $209 million over five years to improve public infrastructure in Canada's national parks.
- $60 million over five years to restore the ecological integrity of our national parks.
- $85 million over five years to minimize the risk of invasive alien species such as the sea lamprey in the Great Lakes.
- $40 million over five years to improve the ecological integrity of the Great Lakes ecosystem.
- $28 million over two years to help develop a competitive and sustainable Oceans Action Plan.
- $15 million annually to discourage foreign overfishing in the Northwest Atlantic.
- An additional $90 million over five years to conduct health risk assessments and research to reduce Canadians' exposure to toxic substances.

### Guiding Principles for Long-Term Progress

The following principles guide the Government of Canada's decisions in allocating funds for various environmental and climate change measures:

**Balance:** Investments must balance the need for short-term action to protect our natural environment and long-term measures to spur change in public behaviour and business practices.

**Competitiveness:** Environmentally sustainable economic growth is essential to Canada's long-term international competitiveness, but the transition to a more sustainable economy must also weigh carefully the impact on the country's short-term competitiveness.

**Partnership:** To the greatest extent possible, investments should lever funds outside the Government of Canada and encourage responses from industry, citizens and other levels of government.

**Innovation:** Investments should promote innovation and support new technologies that feed economic growth, create new opportunities and provide long-term improvements.

**Cost-effectiveness:** Initiatives should achieve environmental benefits at the lowest possible cost.

**Allocation of Proceeds From the Sale of the Government's Petro-Canada Shares**

The Government of Canada is delivering on its commitment to dedicate $1 billion of the proceeds from the sale of Petro-Canada shares directly to investments to support the development and deployment of environmental technologies over the next five years.

| | |
|---|---|
| Sustainable Development Technology Canada | $200 million |
| Wind Power Production Incentive | $200 million |
| Renewable Power Production Incentive (over six years) | $170 million |
| Sustainable Energy Science and Technology Strategy | $200 million |
| Clean Fund | $230 million |
| **Total** | **$1 billion** |

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Delivering on Commitments

# Budget 2005

# Meeting Our Global Responsibilities

**February 23, 2005**

Canada

## An Active Role in Global Affairs

As a nation of people from every part of the globe, Canadians have a keen sense of the world beyond their borders. They want their country to play an active and influential role in global affairs. That is why the Government made a commitment to strengthen Canada's contribution to peace, prosperity and security in the world.

## Budget 2005—Delivering on Commitments

Budget 2005 delivers on this commitment by providing the resources needed to meet our global responsibilities and to seize our global opportunities.

Specifically, this budget:

1. Increases international assistance by $3.4 billion over the next five years, moving towards a doubling of its 2001–02 level by 2010–11.
2. Provides $342 million to address the serious health issues afflicting Africa and over $200 million in new debt relief for the world's poorest nations.
3. Introduces a new approach to managing international assistance so that money will go where it will do the most good.
4. Provides the largest increase in defence spending in 20 years—more than $12.8 billion over the next five years.
5. Supports key national security initiatives through $1 billion in additional funding.

## 1 Doubling International Assistance

Canada supports the United Nations Millennium Development Goals, an ambitious agenda to cut global poverty in half by 2015. In 2002–03, the Government began working toward its commitment to double international assistance by 2010–11.

Budget 2005 takes a significant step forward, providing an extra $3.4 billion in international assistance over the next five years.

## 2 Increasing Support for Africa

Canada will strengthen its long-established support for Africa in its struggle to overcome the challenges of poverty and disease. By 2008–09, aid to Africa will double from its 2003–04 level. Budget 2005 also announces a number of initiatives designed to help Africa achieve greater health and prosperity.

### *Increased Debt Relief*

To continue Canada's long-standing support of international debt relief for the world's poorest nations, Budget 2005 allocates $172 million from the International Assistance Envelope over the next five years to cover Canada's share of debt-service costs to the International Development Association of the World Bank and the African Development Fund.

Budget 2005 also provides an additional $34 million in support of the Heavily Indebted Poor Countries Initiative, an international debt relief program that has provided significant benefits to poor, mostly African, nations.

### *Global Health Funding*

Budget 2005 strengthens Canada's leadership in responding to global health challenges by announcing $342 million in additional funding to address the world's most serious communicable diseases—diseases that affect children most of all. This comprises:

- $140 million for the Global Fund to Fight AIDS, Tuberculosis and Malaria.
- $160 million for the Global Alliance for Vaccines and Immunization.
- $42 million for the Global Polio Eradication Initiative, with the goal of eradicating polio worldwide in 2005.

## 3 Better Management of Canada's International Assistance

In addition to increases in international assistance and investments in global health, Budget 2005 introduces a new approach to better administer Canada's international assistance by allocating it into five distinct pools:

- Development
- International financial institutions
- Peace and security
- Crisis
- Development research

This new system of international assistance will be more transparent, will provide for greater budget predictability, and will provide greater flexibility to respond to unforeseen events.

## 4 Strengthening National Defence

Budget 2005 introduces the largest increase in defence spending in 20 years, worth more than $12.8 billion in cash terms over five years.

This substantial increase in funding, which goes far beyond commitments made last year, will allow National Defence to better meet increasingly complex international challenges.

Examples of recent challenges for the military in Canada and abroad include:

- Canada's efforts in the war on terrorism and in re-establishing peace and security in Afghanistan and Haiti.
- Vital engineering, medical and basic support and relief to tsunami victims in Sri Lanka.
- Responses to domestic emergencies and disasters, such as Hurricane Juan in Halifax and forest fires in British Columbia.

These recent missions and other contributions to international security have placed considerable demands on Canadian Forces personnel and resources. As the world changes, the role of the military must continue to change with it.

Over a five-year period, funding provided in Budget 2005 includes:

- $3 billion to expand the Canadian Forces by 5,000 and the reserves by 3,000, delivering on the commitment in last year's Speech from the Throne.
- $3.2 billion to strengthen military operations by improving training and operational readiness, enhancing military medical care, addressing critical supplies and repairs shortages, and repairing infrastructure.
- $2.7 billion on a cash basis to acquire and operate new medium-capacity helicopters, trucks, utility aircraft and specialized facilities for Canada's elite anti-terrorism unit, JTF2.
- $3.8 billion on a cash basis for further projects to support the objectives established for Canada's military in the upcoming International Policy Statement.

## 5 Reinforcing Canadian Security

Budget 2005 builds on the efforts of the past three budgets to address terrorist threats and improve the security of Canadians while ensuring the safe movement of people and goods across borders.

This budget provides an additional $1 billion towards the implementation of the National Security Policy announced in April 2004. This funding will support investments in security at diplomatic missions abroad, emergency planning and response, transportation and border security, and Canada's efforts to combat organized crime.

### *Air Travellers Security Charge*

To fund the enhanced air travel security system, the Government established the Air Travellers Security Charge and pledged to review the charge to ensure revenue remains in line with costs over a five-year period.

Budget 2005 announces the third consecutive reduction to the charge since it was introduced.

The following reductions are proposed for tickets purchased on or after March 1, 2005:

- **For air travel within Canada:** to $5 from $6 for one-way travel and to $10 from $12 for round-trip travel.
- **For transborder (i.e., Canada–U.S.) air travel:** to $8.50 from $10.
- **For other international travel:** to $17 from $20.

***Marine Security***

Building on past investments and the National Security Policy, Budget 2005 provides an additional $222 million over five years to further enhance the security of the country's marine transportation system. Funding initiatives include new mid-shore patrol vessels for the Great Lakes and St. Lawrence Seaway, additional regulatory inspections, the creation of Emergency Response Teams for the Great Lakes and the St. Lawrence Seaway, and an increased police presence in ports.

***Border Security***

Canada will take further steps to secure the Canada–U.S. border without impeding the legitimate flow of goods and people. Budget 2005 provides $433 million over five years to further strengthen the capacity of the Government to deliver secure and efficient border services.

### International Policy Statement

As indicated in the Speech from the Throne, Canada will strengthen and better coordinate its international policy. Over the past year, the Government has engaged in the first review of international policy in over a decade. The International Policy Statement, which will be issued shortly, will focus on three international policy priorities:

- **Security:** Protecting Canadians in a world challenged by increasingly complex threats.
- **Prosperity:** Ensuring our competitiveness in North America and taking advantage of new opportunities abroad.
- **Global citizenship:** Reflecting Canadians' desire to make a difference in the world.

Subsequent budgets will build on the foundation provided by the International Policy Statement.

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Delivering on Commitments

# Budget 2005

## Securing Our Social Foundations

February 23, 2005

Canada

## Building on Solid Foundations

Canadians believe that all individuals should have the chance to succeed, achieve their potential and participate fully in the promise of Canadian society.

Recent new federal commitments of more than $75 billion in support of the 10-Year Plan to Strengthen Health Care and the new framework for Equalization and Territorial Formula Financing (see box) provide predictable and growing federal funding for social programs that reflect these values.

These investments also establish a solid base for the Government's commitment to strengthen and secure Canada's social foundations.

## Budget 2005—Delivering on Commitments

Budget 2005 delivers on this commitment through significant investments in:

1. Health care
2. Early learning and child care
3. Support for seniors
4. Aboriginal communities
5. A fairer tax system, including measures to help people with disabilities and caregivers
6. Heritage and sport
7. Strengthening Canada's justice framework

### Fall 2004—Major Investments in Support of Health and Social Priorities

In September 2004, First Ministers signed a 10-Year Plan to Strengthen Health Care. The Prime Minister committed $41.3 billion over 10 years in support of the plan, fully meeting the financial recommendations of the Royal Commission on the Future of Health Care in Canada (the Romanow Report).

An additional $700 million over five years for Aboriginal health programs and $150 million for health care services in the North was also announced.

In October, the Government of Canada also launched a new framework for Equalization and Territorial Formula Financing that will add an additional $33 billion in federal support over the next 10 years.

These initiatives provide additional financial support to provinces and territories to ensure that all Canadians have access to reasonably comparable public services at reasonably comparable rates of taxation no matter where they live.

Legislation implementing these commitments has already been tabled in the House of Commons.

## 1 Health Care

Budget 2005 builds on the investments outlined above with $805 million over five years in new direct federal health funding:

- $75 million over five years to accelerate and expand the assessment and integration of internationally educated health care professionals.
- $15 million over four years for wait times initiatives that will build on and complement provincial and territorial initiatives.

- $110 million over five years to improve the data collection and reporting of health performance information.
- $300 million over five years for an integrated strategy to encourage healthy living, and prevent and control chronic disease.
- $34 million over five years to enhance Canada's pandemic influenza preparedness.
- $170 million over five years to help ensure the safety and effectiveness of drugs and other therapeutic products.
- $10.7 million in 2004–05 for the Hepatitis C Prevention, Support and Research Program.
- $90 million over five years for Health Canada to accelerate work to identify and research toxic substances under the Canadian Environmental Protection Act.

## 2 Early Learning and Child Care

High-quality child care and early learning opportunities are essential to support children's physical, emotional, social, linguistic and intellectual development, and to set them on a path of lifelong achievement.

The Government of Canada's commitment to a new Early Learning and Child Care initiative recognizes the important role that early learning and child care play in expanding opportunity and building a more productive economy.

Budget 2005 follows through on this commitment with new investments of $5 billion over five years to help build the foundations of an Early Learning and Child Care initiative across the country.

## 3 Seniors

Budget 2005 delivers on the Government's commitment to meet the evolving needs of seniors by:

- Increasing Guaranteed Income Supplement (GIS) benefits for low-income seniors by $2.7 billion over five years: monthly benefits will rise by $36 for singles and $58 for couples by January 2007 (see examples below).
- More than doubling the funding for the New Horizons for Seniors program, which will be increased from $10 million to $25 million a year to promote voluntary sector activities by and in support of seniors.

### Examples—Guaranteed Income Supplement Increase

Gerald is a widowed senior who currently receives maximum GIS benefits of $560 per month, in addition to his Old Age Security (OAS) pension, for total monthly benefits of $1,032. By 2007, his monthly benefits will rise to at least $1,068.[1]

Serge and Nadine are married seniors who currently receive combined GIS benefits of $730 and total GIS and OAS benefits of $1,674 per month. As a result of the 2005 budget changes, their total monthly benefits will rise to at least $1,732[1] by 2007, assuming no change in their other income.

[1] GIS and OAS benefits also increase in line with the inflation rate, as measured by the Consumer Price Index.

## 4 Strengthening Aboriginal Communities

The Government of Canada is committed to a renewed partnership with Aboriginal people. While awaiting the completion of the Canada–Aboriginal Peoples Roundtable process, Budget 2005 provides $735 million in new investments aimed at ensuring that the country's prosperity is shared by Canada's Aboriginal people and communities. This is in addition to the $700 million over five years for Aboriginal health programs announced in September 2004. Budget 2005 measures include:

- $295 million over five years for housing construction and renovation on reserves.
- $100 million over the next five years to enhance early learning and child care opportunities for First Nations children and families living on reserves.
- An additional $120 million over five years for special education for First Nations children living on reserves.
- $125 million over five years to support the work of First Nations child and family service agencies.
- $40 million so that the Aboriginal Healing Foundation can continue, for another two years, to support community-based healing projects that address the legacy of physical and sexual abuse in the Indian residential school system.

## 5 Tax Changes to Improve Fairness

A fair tax system recognizes the special circumstances of certain taxpayers and helps remove barriers to their full participation in the economy and society.

Budget 2005 makes the tax system fairer by acting on the recommendations of the Technical Advisory Committee on Tax Measures for Persons with Disabilities. Proposed measures include:

- Extending eligibility for the disability tax credit (DTC) to individuals who face multiple restrictions that together have a substantial impact on their everyday lives.
- Extending the DTC to more individuals requiring extensive life-sustaining therapy on an ongoing basis.
- Increasing the maximum annual Child Disability Benefit to $2,000 per child.
- Expanding the list of expenses eligible for the disability supports deduction and the medical expense tax credit.

In addition, this budget proposes to double, to $10,000, the maximum amount of medical and disability-related expenses that caregivers can claim on behalf of their dependants.

Budget 2005 also proposes to introduce a new tax credit to recognize specified adoption expenses (including adoption agency and legal fees), up to a maximum of $10,000.

## 6 Supporting Canada's Heritage

Budget 2005 makes additional investments in the following areas:

***Support for Culture and History***

- $172 million per year in new funding to provide stability for the Tomorrow Starts Today arts and culture initiative for another five years.
- $25 million over five years to enhance the Multiculturalism Program.
- $50 million over five years to the Celebrate Canada program for community-based events and activities that offer Canadians the opportunity to share their pride in their country.
- $46 million over the next five years to continue implementation of a national register of historic places, conservation standards and a certification process in respect of restoration expenditures.
- $30 million over five years for future commemorative activities so that the contributions of Canada's veterans will never be forgotten.
- $15 million over the next two years to support Vancouver's hosting of the 2006 World Urban Forum.
- $56 million over the next five years for the implementation of "A Canada for All: Canada's Action Plan against Racism."
- $25 million over the next three years for commemorative and educational initiatives to highlight the contribution that ethnocultural groups have made to Canadian society and help build a better understanding among all Canadians.

***Sport***

Funding for Sport Canada will effectively double from $70 million to $140 million as a result of new investments announced in Budget 2005:

- $65 million annually in support of Canada's elite athletes—including funding to respond to the recommendations of the Own the Podium report.
- $5 million per year over the next five years for sport participation initiatives.

The budget also provides an additional $87 million in funding for the Vancouver–Whistler Olympic and Paralympic Winter Games.

## 7 The Justice Framework

Budget 2005 contains measures aimed at protecting Canadians from crime and increasing their confidence in the justice system. These include:

- $90 million over the next three years to enhance the National Crime Prevention Strategy.
- $25 million over the next five years to renew the Victims of Crime Initiative.
- $15.6 million per year to support efforts to ensure that war criminals do not find safe haven in Canada.

### Increasing the Basic Personal Amount

Budget 2005 increases the basic personal amount, i.e. the amount that Canadians can earn tax free, to $10,000 by 2009. This will benefit all Canadians, but especially those with low and modest incomes. In fact, this measure will remove 860,000 low-income taxpayers from the tax rolls, including 240,000 seniors.

## How Can I Get More Information on Budget 2005?

Information is available on the Internet at www.fin.gc.ca or by phoning:

1 800 O-Canada (1 800 622-6232)
1 800 465-7735 (TTY for the speech and hearing impaired)

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